FISCAL YEAR 1989 BUDGET FOR VETERANS' PROGRAMS AND S. 2049, THE VETERANS' HOME LOAN PROGRAM IMPROVEMENTS ACT OF 1988

HEARING

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

MARCH 4, 1988

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FISCAL YEAR 1989 BUDGET FOR VETERANS' PROGRAMS AND S. 2049, THE VETERANS' HOME LOAN PROGRAM IMPROVEMENTS ACT OF 1988

FRIDAY, MARCH 4, 1988

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 8:05 a.m., in room SR-418, Russell Senate Office Building, Hon. Alan Cranston (chairman of the committee) presiding.

Present: Senators Cranston, Matsunaga, DeConcini, Rockefeller, and Murkowski.

OPENING STATEMENT OF CHAIRMAN CRANSTON

Chairman CRANSTON. Good morning. This hearing will please come to order.

I am amazed to see so many of you here so early. I welcome you to this morning's hearing of the Committee on Veterans' Affairs on the Fiscal Year 1989 Budget for Veterans' Programs, and on S. 2049, the proposed "Veterans' Home Loan Program Improvements Act of 1988."

I have a very detailed written statement which is available on the Press table and which has been given to each witness. That statement, with respect to the fiscal year 1989 budget, is very similar to the statement I made last week at two hearings on veterans' organizations legislative priorities.

I therefore am going to make only one point in my statement today, in order to allow the maximum time for questions to our witnesses.

I want simply to stress at this point that the VA budget request includes no real increase. The apparent 7 percent increase in budget authority is totally illusory.

When the budget figures for fiscal years 1988 and 1989 are adjusted to take into account the funding for the proposed credit subsidy legislation, which, according to the budget, is just a paper transfer of funds between Federal agencies, and for the supplemental appropriations required for the fiscal year 1988 compensation COLA and loan guaranty deficiency, the fiscal year 1989 budget provides no increase—no increase—in budget authority as compared to fiscal year 1988. In fact, it is a few million dollars less.

I look forward to the testimony of all of the witnesses today. We will now turn to our first witness.

I would like to welcome and publicly congratulate Administrator Tom Turnage and the man other VA officials who work so very hard to provide, as I had requested, the Agency's prepared testimony as well as answers to most of my prehearing questions by Monday, with many of the rest submitted over the past 2 days. I wish we had been able to get answers to all of the questions we asked for before the hearing, but I do know this took a great deal of effort and coordination, and I want everyone involved to know how very grateful we are for the efforts you have made.

In addition, Tom, I want to express my appreciation for your generally very helpful comments on S. 2049. Tom, we will have further written questions to follow up for the record, certain of which we want to have back to us by March 9, if that is possible, and I presume it will be.

Now, if you would please introduce those with you, and proceed.

[The prepared statement of Chairman Cranston appears on p. 116.]

STATEMENT OF THOMAS K. TURNAGE, ADMINISTRATOR OF VETERANS' AFFAIRS, VETERANS' ADMINISTRATION, ACCOMPANIED BY WILFRED L. EBEL, CHIEF MEMORIAL AFFAIRS DIRECTOR; DONALD L. IVERS, GENERAL COUNSEL; CONRAD HOFFMAN, CONTROLLER; R. JOHN VOGEL, CHIEF BENEFITS DIRECTOR; DR. JOHN A. GRONVALL, CHIEF MEDICAL DIRECTOR; COL. JAMES DeWIRE, CHIEF OF STAFF; SUSAN LIVINGSTONE, ASSOCIATE DEPUTY ADMINISTRATOR FOR LOGISTICS; KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE; AND ROBERT GREAVES, SUPERVISOR APPRAISER

Mr. TURNAGE. Thank you, Mr. Chairman.

I am pleased to point out that even as late as last night we delivered another increment of the questions to your staff, and we will endeavor to do our utmost to meet your suspense date of March 9 for the balance of those questions.

At the outset, please allow me to introduce those who join with me here at this table. On the right is Mr. Will Ebel, who is the Director of Memorial Affairs. To my immediate right is Mr. Don Ivers, who is the General Counsel for the Veterans' Administration To my far left is Mr. Conrad Hoffman, who is the Fiscal Officer for our operations; Mr. John Vogel, who is the Chief Benefits Director, and, as you know, Dr. John Gronvall, who is the Chief Medical Director for our Veterans' Administration.

Sir, it is a pleasure to meet with you this morning to discuss the VA's budget request for 1989.

Chairman CRANSTON. Thank you.

May I ask you to try to summarize it in 5 minutes or less?

Mr. TURNAGE. Indeed we will. I think you will probably be pleased with that; but I would ask that my full statement be included for the record.

Chairman CRANSTON. It will.

Mr. TURNAGE. I am amazed somewhat that you expressed surprise at our being here. Actually, we came to work late today. We normally get there earlier.

Chairman CRANSTON. I really wasn't referring to you; I was referring to all the others. [Laughter.]

Mr. **Turnage**. At the outset, let me discuss veterans' entitlements.

The largest portion of this budget request is for veterans' entitlements programs, which, at $16 billion, constitutes over 67 percent of the total budget. About two-thirds of these funds, or $10.7 billion, will provide compensation payments to over 2½ million veterans and survivors. Another $3.9 billion will provide pension payments to 1.2 million recipients.

We are proposing to index compensation benefits to the Consumer Price Index to ensure timely recognition of consumer price increases. We have requested $658 million to support operations in the Loan Guaranty Revolving Fund. This request would fund nearly $3.7 billion in obligations estimated for this fiscal year.

In medical care, I am pleased to note that, while the President's budget is in compliance with the bipartisan budget agreement made between your body of the Congress and the administration, the VA's share allows us to continue to provide quality medical care to America's disabled and needy veterans.

We are requesting a medical care budget of over $10 billion. The funds will provide for the medical care and treatment of 1.2 million inpatients and over 23 million outpatient visits.

Over 192,000 full-time employee equivalents are requested to meet the medical needs of these veterans.

To help alleviate the nurse shortage, the Veterans' Administration has requested legislation to expand the authority to allow tuition reimbursements to nurses for nursing degree related courses.

In Memorial Affairs we are requesting $47.4 million. Total interments are expected to increase by 2.5 percent to a total of 56,400 in fiscal year 1989.

Funding is included in our construction budget for the expansion of the Calverton National Cemetery by 90,000 grave sites.

Also requested is funding for maintenance and repair projects, in order to preserve the national cemeteries as fitting tribute to our Nation's veterans.

In construction, the VA's request for fiscal year 1989 includes over $500 million for projects at medical centers, regional offices, and national cemeteries. Major construction funds are proposed for 14 sites, including construction funding for replacement of modernization projects in Atlanta, Georgia and Pittsburgh, Pennsylvania—that is, the Aspinwall Division.

The budget request also includes funds for a domiciliary at Mountain Home, Tennessee and for large clinical projects in Beckley, West Virginia; Nashville, Tennessee; Perry Point, Maryland; and San Antonio, Texas.

Mr. Chairman, I believe our budget request reflects a necessary concern for fiscal restraint while supporting our commitment to meeting the needs of our veterans.

My staff and I will be pleased to answer any questions you might have.

[The prepared statement of Mr. Turnage appears on p. 154.]

Chairman **Cranston**. Thank you very much.

Tom, I have many questions; so I ask each of you, please, to keep your answers as brief as possible and provide further detail as you see fit, and as I may request, for the record.

First, Tom, will the Administration be requesting supplemental appropriations for the fiscal year 1988 compensation COLA and loan guaranty deficiency?

Mr. TURNAGE. Yes, sir, we will be.

Chairman CRANSTON. When will that be?

Mr. TURNAGE. We hope soon. That has already been submitted to review of the OMB, and we expect it shortly. We asked for it to be handled on a priority basis.

Chairman CRANSTON. Good.

The fiscal year 1988 compensation COLA was signed into law in mid-December, and I understand that the VA was aware late last year that there would be a sizable loan guaranty deficiency in fiscal year 1988. Why has it taken so long to get those requests up here to Congress?

Mr. TURNAGE. I am not familiar with the specifics of that. Perhaps Mr. Vogel can assist, sir.

Mr. VOGEL. Mr. Chairman, we did ask for the supplemental request of OMB. The budget agreement, as we understand from OMB, pertaining to supplementals, directed that there would be no supplementals included in the budget submission; they would be forthcoming shortly thereafter. And as the Administrator said, we expect those to be coming up here very shortly.

Chairman CRANSTON. When did you submit those to OMB?

Mr. HOFFMAN. The compensation COLA was submitted at the time our budget request went forward to OMB, however, the loan guaranty supplemental request did not go to OMB until early January.

Chairman CRANSTON. How soon will the impact of the fiscal year 1988 funding shortfall be felt in the Loan Guaranty Revolving Fund?

Mr. HOFFMAN. Mr. Chairman, that will be felt at the end of this month, mid- to late-March.

Chairman CRANSTON. What will happen then?

Mr. HOFFMAN. Absent funds in the revolving fund, we would have to delay the payment of claims until replenishments are made to the Loan Guaranty Fund. We would essentially begin to slow down the payment of claims and ultimately stop making them.

Chairman CRANSTON. Do you think OMB understands the urgency of this? And Tom, might you call Mr. Miller and urge that they update us up here?

Mr. TURNAGE. We have discussed that. They understand fully, sir.

Chairman CRANSTON. Have you urged them to get this up here by the time Congress is back after the coming break next week?

Mr. TURNAGE. I am not sure I tied any specific date to it, but they understand the urgency, and we asked for priority treatment of that matter.

Chairman CRANSTON. In Public Law 100–169 Congress clearly expressed its refusal to allow the VA to sell vendee loans without recourse for fire-sale prices by prohibiting without-recourse sales unless par value were obtained. The effective date of that provision has been delayed for 2 years to give the VA the opportunity to develop cost-effective means of selling those loans without recourse.

In fiscal year 1989, the VA intends to sell $561 million of portfolio vendee loans without recourse, at an estimated 65 percent discount, and $777.8 million of current loans, which in the past had generally been sold with recourse for amounts near or even exceeding par value, at an estimated 25 percent discount.

In terms of the cost-effectiveness of the strategy to pursue only sales without recourse, is it your position that the costs associated with selling loans with recourse are equivalent to 25 percent of par value?

Mr. TURNAGE. John?

Mr. VOGEL. Mr. Chairman, we have secured the services of a financial adviser to assist us in marketing loans on a nonrecourse basis and have underwriters working with Kidder Peabody, who is the adviser, to market them.

One cannot state with any certainty what the yield would be. It is important to note that about 16 percent of all the vendee loans made come back to us. They do go into default and foreclosure, and we take them back. So, to say that they sell at or near par is true at a given point in time. A number of them do come back. There is a subsidy amount that is present when a vendee loan is made and sold with recourse and that amount will be readily apparent when we sell without recourse.

Chairman CRANSTON. So you are not saying that there would be that 25 percent discount for with-recourse sales?

Mr. VOGEL. Well, the expectation is that we get as much as we can. On a nonrecourse basis we are not going to get anywhere near par. It really depends on how the loans are assembled by area of the country to determine what the yield might be.

Chairman CRANSTON. Tom, the VA budget proposal would cut DVB staffing by 492 FTEE and DM&S staffing by 1,782 FTEE. No staffing cuts, however, have been made in the Department of Memorial Affairs. Why have Memorial Affairs staffing resources been given a higher priority than the staffing to be provided for veterans' health care and all of the DVB veterans' benefit programs?

Mr. TURNAGE. In the first instance, sir, it hasn't been a matter of priority. It has been a matter of determining the figures on the basis of absolute workloads, and it is far more definitive to determine the workload in the DMA level than it is in the other two entities in the system.

The death expectation and the experience factors welded together can give us some precise figures.

Now, with regard to the other two entities, we have some specific basis for the cuts that were made or proposed, and we can give you that rationale now, if you would like, or at the time you prefer.

Chairman CRANSTON. Why don't you give that to us in writing?

Mr. TURNAGE. All right.

[Subsequently, the Veterans' Administration furnished the following information:]

The Agency's reduction in FTEE for the Departments of Medicine and Surgery and Veterans Benefits compared to no reduction in the FTEE for the Department of Memorial Affairs is based on workload projections, automation efficiencies and improved productivity for 1989.

For the Department of Medicine and Surgery, the 1989 employment reductions are possible due to automation efficiencies (DHCP) and improved productivity. The budget justification details both a 1 percent reduction in FTEE for increased productivity as well as a 2-year, phased reduction in the staffing ratio with no decrease in workload.

The workload projections for the Department of Veterans Benefits are decreasing. All workload measurements in the Veterans Services program are showing decreases while three measurement criteria out of four in the Loan Guaranty program are decreasing.

However, the workload in the Department of Memorial Affairs is projected to increase in 1989. In fact, all workload measurements including interments accomplished, occupied gravesites maintained, and headstone/marker applications processed show increases.

Mr. TURNAGE. Let us first talk about veterans' benefits. The original compensation and claim workload has decreased by 18,329 cases, or 9 percent, during the period January 1987 to January 1988.

Claims adjustment workload has decreased 146,000 cases, or 13 percent during the same period.

Original education claims workload has increased over that period by 38 percent, and that is based on a number of factors to include the Montgomery education bill.

Vocational rehabilitation and counseling workload has remained relatively constant, approximately 25,000 veterans receiving rehabilitation service.

Eligibility determinations for home loan guarantees have decreased from a high in April of 59,000 cases to a level in January of this year of 20,000 cases, a 65-percent decrease.

Applications for guaranteed loans have decreased, from 40,000 in January of 1987 to 13,700 in January of 1988, a 66-percent decrease, with the high month in 1987 being March with 49,000 applications received. Loans closed have gone from 38,000 to 15,000, a 58-percent decrease during the same period, and then the property inventory that we must manage, on the other hand, has had an increase. However, that is not nationwide.

As you can appreciate, and I know you are intimately familiar with the fact, that is really oriented toward the energy impact areas of the country, notably three States plus some other spot areas—the three States being Louisiana, Texas, and Oklahoma, and then Denver and Anchorage.

But the fact is, overall, when you analyze the workload, there has been a measurable decrease and projected decrease. Then, when you add to that the automatic data processing accomplishments that have been incorporated into the area and the sophistication that is being achieved, I think that this reduction is consistent with fact and reasonable projections.

Now, with regard to the other side of the House, we talk about DM&S, which normally gets the most attention.

There have been reductions in the average daily census; there have been reductions in the bed occupancy rate.

Chairman CRANSTON. We are going to get to the DM&S a little bit later so let us cover that at that time.

Mr. TURNAGE. All right.

In any event, then, that is the rationale for the difference between DMA and DVB.

Chairman CRANSTON. Fine.

John Vogel, in 1982 the VA ran a pilot program in the Chicago and Cleveland areas to test the effect on property disposition of offering below-market interest rates on vendee loans. Was the pilot program successful in improving property sales in those areas?

Mr. **Vogel**. The program had some measure of success. We believe that the most effective way to make properties attractive for sale is through pricing rather than interest rate reductions. We think that is the way to go.

To provide below-market interest rates on properties in inventory, you essentially would be giving a nonveteran buyer a lower interest rate than a veteran buyer on a loan guaranty.

Chairman **Cranston**. Do you consider the program to have been successful?

Mr. **Vogel**. I think it was marginally so, sir. I don't think that one should say that it was a resounding success.

Chairman **Cranston**. Would you give us an analysis for the record?

Mr. **Vogel**. Certainly, Mr. Chairman.

[Subsequently, the Veterans' Administration furnished the following information:]

On January 13, 1983, the Office of Management and Budget (OMB) authorized the VA to set the interest rate on certain new vendee accounts originated by 14 regional offices at varying differentials below the maximum authorized rate for VA guaranteed loans. The authorized differentials were as follows:

GI loan rate	Special vendee loan rate
13 percent or higher	2 percent lower than GI rate.
10 percent to 12¾ percent	1 percent lower than GI rate.
8 percent to 9¾ percent	½ percent lower than GI rate.
Less than 8 percent	Same as GI rate

The interest rate test program was effective from January 25, 1983, to September 30, 1983, and included only those properties which remained available for sale 8 months after the initial listings of the properties and which did not have offers pending at the time the properties became eligible for the reduced interest rate financing.

For the purposes of reporting test results to OMB, sales during the test period were compared with sales during the comparable period of calendar year 1982. During the test period, the Cleveland and Chicago regional offices sold 65 percent and 26 percent more properties, respectively, than during the comparable 1982 period. The 14 test stations sold 69 percent more properties during the test period than during the comparable period of 1982. During the test period, there was steady improvement in the ratio of number of sales to number of new property acquisitions at the 14 test stations. In the first quarter of the test, the ratio was only 0.71. During the final quarter of fiscal year 1983 the sales-to-acquisition ratio improved to 0.93.

Chairman **Cranston**. Tom, back to page 5 of your statement. You say, "Within the additional resources provided by the Congress in the 1988 appropriations, the VA can continue the Homeless Veterans Treatment Program established in Congress in 1987 in Public Law 100-6." As you know, that Public Law provided $5 million for that program and initially limited expenditures for it to $5 million. Later, the fiscal year 1987 Supplemental Appropriations Act, a subsequent enactment, provided an additional $5 million for the program and made it available through fiscal year 1988.

I understand that at the current level of activity within the program it is entirely possible that the $5 million will be expended before the end of the current fiscal year. Once that amount is spent, the initial Public Law 100-6 limitation would spring back, and there would be no further authority to expend funds for this program, absent further legislation by Congress.

Do I understand your statement about continuing the Homeless CMI Program in fiscal year 1988 to mean that, if Congress were to remove the limit on expenditures in Public Law 100-6 as the Senate proposed in passing S. 477 last March, the Agency would use general medical care funds, if necessary, to continue this program at the current level of operations for the rest of the fiscal year?

Mr. TURNAGE. If I understand your question correctly, sir, on the first hand we used the dollars that were made available to us in the two separate increments for purposes, in effect, of starting up the program to provide domiciliary accommodations. That was the prime reason.

Chairman CRANSTON. But we are talking about the CMI Program.

Mr. TURNAGE. Yes, once that program was started, the fact is that the veterans that have already gone into that system and will continue to be supported by the system. They are not there to provide a domiciliary solution to the homeless problem. They are there for medical care, for psychiatric care, for counseling, for rehabilitation, and to prepare them to get back into society

Now, I think perhaps Dr. Gronvall has some other comments he might make about that program.

Chairman CRANSTON. Well, I want to stress we are talking about the CMI Program, not the Domiciliary Program.

Dr. GRONVALL. Yes.

Mr. Chairman, the program you are referring to is now operating in 43 of our medical centers. It was started with the special funding that came from Public Law 100-6. Our estimate for the current year 1988 is that the program will cost about $12.9 million.

As a part of the executive branch development of the 1989 budget, a decision was made that we would continue the program throughout 1988 by internal realignment of the funds made available in the 1988 appropriation a that $12.9 million level.

Chairman CRANSTON. So the answer is "Yes," then?

Dr. GRONVALL. Yes. And the 1989 budget identifies $12.9 million to continue the program through 1989.

Chairman CRANSTON. John, what funds were requested for this program, the CMI Homeless Program? In the Agency's original fiscal year 1989 budget submission to OMB, what funds were proposed to be included in the budget request to the Congress?

Dr. GRONVALL. In 1989?

Chairman CRANSTON. Yes.

Dr. GRONVALL. I would have to supply that for the record.

Chairman CRANSTON Please do so.

[Subsequently, the Veterans' Administration furnished the following information:]

The Agency's original request identified a total requirement of $12,932,000 in 1988 to a level of $13,252,000 in 1989 for the treatment of homeless chronically mentally ill (HCMI) veterans in community-based residential treatment programs. The 1989 President's budget request to the Congress provides for these funding levels.

Dr. **Gronvall**. I know the figure that is recognized in the budget is $12.9 million. I believe that that was our request, because that is our projection of the cost of continuing the program.

Chairman **Cranston**. Did you request an add-on but were told to absorb that amount?

Dr. **Gronvall**. We had proposed seeking supplemental funds for 1988.

Chairman **Cranston**. What about 1989, though? Did you ask for some add-ons and then get told, "Absorb that in your overall budget"?

Dr. **Gronvall**. I would have to supply the answer regarding 1989 for the record.

[Subsequently, the Veterans' Administration furnished the following information:]

The $12,932,000 funded level in 1988 for the homeless chronically mentally ill (HCMI) veterans that is identified in the 1989 budget is annualized in 1989 to a level of $13,252,000. Inflation and payroll increases account for the additional $320,000.

Dr. **Gronvall**. We did propose seeking a supplemental in 1988, and the decision was that that could be absorbed within the existing 1988 appropriation.

Chairman **Cranston**. Connie, do you know the answer to that?

Mr. **Hoffman**. No, I don't, sir. We can provide it.

Chairman **Cranston**. OK, fine.

[Subsequently, the Veterans' Administration furnished the following information:]

Funds for the CMI Program were requested in the agency's 1989 OMB budget request and this request was allowed by OMB.

Chairman **Cranston**. Tom and John Gronvall: In my prehearing question 69(e) I requested information on workload in the readjustment counseling service over the past 5 fiscal years, together with projections of demand for the next 3 years. Unfortunately, that question was not answered.

My purpose in asking for such information was to evaluate the administration's proposal to cut $4.7 million and 79 FTEE from the program in fiscal year 1989 especially in light of my understanding that there has not been any decrease in demand for readjustment counseling services up to this point.

So, please tell us now, if you can, what the RCS workload has been for each of the 5 past fiscal years and the first quarter of fiscal year 1988.

Mr. **Turnage**. Some of the specifics of that we would provide for the record, Mr. Chairman; but if it is in question 69(e), it will be answered. But I think it is important for you to have access to. The fact that these figures were derived from the readjustment counseling service itself, on the basis of a 10-percent decrease in the workload. They suggested that was going to occur each year; but in fact it hasn't. But that was their projection for fiscal year 1989. That workload, associated with both the FTEE as well as the dollar figure, is where that was derived.

[Subsequently, the Veterans' Administration furnished the following information:]

The systemwide Readjustment Counseling Program workload data is as follows:

	1983	1984	1985	1986	1987
Vet center visits	392,099	479,351	447,962	593,652	600,225
Contract	([1])	([1])	140,290	92,479	94,918
1st quarter 1988:					
Vet center visits	137,768				
Contract visits	([1])				

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[1] More recent and detailed information has been supplied and is retained in the committee files.

Chairman CRANSTON. Well, when was that projection made? And didn't that anticipate a downturn in 1988 that did not occur?

Dr. GRONVALL. Mr. Chairman, I might expand just briefly on that.

As the Administrator said, as we look forward, given continuation of the existing mission of the Vet Center Program, our Vet Center staff have projected that at some point in the future the anticipated demand would begin to decline by something like 10 percent per year.

Also, the Administrator suggested, as we have tracked along year to year, we have not yet seen evidence of that downturn. The most recent 2 full years, 1986 to 1987, in fact showed I believe a 1.1-percent increase in 1987 over 1986. Current workload figures on into the current fiscal year to date, 1988, again continue to show essentially a flat workload.

Chairman CRANSTON. So, you don't currently have a basis to project a decline?

Dr. GRONVALL. We do not have a base of actual experience of a workload decline, you are correct.

Chairman CRANSTON. John Vogel, in response to my prehearing question 30(a), you stated:

> There is no question that timeliness of service to veterans, particularly in the issuing of certificates of reasonable value, deteriorated in fiscal year 1986 and early fiscal year 1987.

According to the Independent budget, even though the VA's quality and timeliness standards have been lowered since the late 1970s—in some programs lowered to half of the earlier criteria—DVB still is not meeting its standards.

In fiscal year 1987, for example, the Independent budget reports that only 16 percent of original compensation claims were completed in 2 months, although the lowered standards set goals of 30 percent completion.

Specifically, regarding the service-connected rehabilitation program under chapter 31, what is your timeliness standard for initiating an evaluation of a veteran who applies for chapter 31 benefits

Mr. VOGEL. Mr. Chairman, I don't have the figure on the initiation of chapter 31 services to the service-disabled. There has been some increase in the time they are in applicant status, and in employment status. I would be pleased to provide that for the record, sir.

Chairman CRANSTON. All right. I will have some specific questions on vocational rehabilitation that I will submit then.

[Subsequently, the Veterans' Administration furnished the following information:]

The timeliness goal or standard is 60 days. This is the time measured from the date of receipt of an application for vocational rehabilitation until the veteran is seen by a counseling psychologist to commence the evaluation and planning process including the determination of entitlement. In certain instances delay results from the lack of a prior determination of service connected disability. Since this is a requisite for referral to the Vocational Rehabilitation and Counseling Program a rating decision is required including the location of service medical records, examinations, etc. Therefore, there will always be some small number of cases that will exceed the 60 days goal, however, we feel the average should be maintained within the 60 day period.

Chairman Cranston. Are all DVB central office and regional office components currently, in fiscal year 1988, meeting the VA standards for quality and timeliness?

Mr. Vogel. Mr. Chairman, we are either meeting or within control for quality across the board; with respect to timeliness being a function of quality——

Chairman Cranston. Did you say you are currently meeting those standards?

Mr. Vogel. We are in the quality areas, as we validate the quality of adjudicated actions.

Chairman Cranston. What about the timeliness standards?

Mr. Vogel. The timeliness in some categories has declined. We expect to make up a great deal of that up through improved management in the claims process, both within the Department, with respect of obtaining records from other entities, and from the Department of Medicine and Surgery.

Chairman Cranston. Would you give us the data on both quality and timeliness for the record?

Mr. Vogel. Yes, we would be pleased to, Mr. Chairman.

[Subsequently, the Veterans' Administration furnished the following information:]

Currently, we are meeting the Upper Control Limit (UCL) of the Minimum Acceptable Level (MAL) for quality in all areas except for authorization material deficiencies. All reported exception rates have been validated on CO SQC review except for the authorization substantive and material rates.

SQC (FISCAL YEAR JAN. 31, 1988)

	Stations	CO[1]	UCL of MAL
Ratings:			
Reviewed	11,750	1,093	
Subs error rate (percent)	1.6	1.7	4.5
Material error rate (percent)	1.9	2.8	3.8
Procedural error rate (percent)	4.1	1.2	6.7
Authorization:			
Reviewed	12,570	2,333	
Subs error rate (percent)	2.0	3.3	3.5
Material error rate (percent)	3.0	5.1	4.1
Procedural error rate (percent)	6.1	3.5	6.6

[1] Data from 32 stations only.

Timeliness in claims processing has declined over the past 12 months.

PERCENT OF CASES COMPLETED WITHIN 90 DAYS (12 MONTHS CUMULATIVE FIGURES)

[In percent]

	January 1988	July 1987	January 1987
Original compensation	29.9	31.7	33.2
Original pension	51.9	53.6	54.6
Original death Comp/DIC	59.8	60.2	62.3
Original death pension	74.3	75.8	78.0
NOD's	84.4	83.5	84.0
Nonoriginal claims	58.3	59.3	60.6
Dependency claims	91.4	91.1	91.8
Income issues	89.9	89.8	90.7
Burial claims	88.7	88.9	90.1

Chairman CRANSTON. And also, if you can, indicate how you can do better in fiscal year 1989 with less FTEE, which is being cut by 492, according to the budget request. And do that in writing, please.

Mr. VOGEL. Yes, sir, we would be pleased to, Mr. Chairman.

[Subsequently, the Veterans' Administration furnished the following information:]

The Department is committed to maximizing the impact of its FTEE through constant review and improvement processes. We expect to provide a good level of service to our Nations veterans with the resources included in the 1989 budget. Some of the reductions are the logical result of decreases in workload. Several short term modernization initiatives will provide greater productivity and efficiency, which will reduce FTEE needs.

Chairman CRANSTON. The Home Loan Program has faced increasing costs in recent years; yet, from fiscal year 1984 to fiscal year 1987 it is estimated that the number of FTEE in the Home Loan Program increased only 4.5 percent, while the number of loan originations increased 74.9 percent, the number of defaults on VA-guaranteed loans increased 22.9 percent, the number of foreclosures on such loans increased 49.1 percent, and the number of VA-acquired foreclosed properties increased 34.1 percent

Not surprisingly, regional office staffing shortages have been cited over and over as a primary cause of, for example, insufficient financial counseling to prevent veterans in default on guaranteed loans from going into foreclosure, delays in processing bids on foreclosed properties that cause sales to fall through, and the accrual of additional interest which must be paid under the VA guarantee as a result of foreclosure sales that had to be postponed because the VA did not have adequate staff to analyze the property appraisals and issue foreclosure bidding instructions.

So, how do you expect to improve in these areas under a fiscal year 1989 budget that cuts loan guaranty staffing by 75 FTEE?

Mr. VOGEL. Mr. Chairman, the origination end of the loan guaranty business—the claims for eligibility, the workload that is associated with evaluation, construction evaluation—is markedly down. The large workload that we had in that area, when interest rates fell from historically high areas down to the single digit, is what brought us a great deal of that workload.

We have shifted a lot of loan guarantee resources over to the loan servicing and property management areas, especially, of course, in the regions which the Administrator referred to where we have a very persistent and high rate of claims—that being Texas, Oklahoma, Colorado, and Louisiana.

We also have a pilot loan production system which we tested in three regional offices and mean to move next month to Houston, where we are especially beleaguered by a great number of properties and guaranty claims.

Chairman **Cranston**. Wouldn't it really be cost-effective in the long term to increase loan guaranty staffing so as to improve property management and disposition and loan servicing to veterans?

Mr. **Vogel**. There is, Mr. Chairman, obviously a correlation between getting a property ready for sale or allowing it to sit for awhile.

We have working with us in the Houston area, a private sector council which has assisted us in markedly improving the sales posture. Last year Houston sold about 4,300 properties. In the last month we had what I hope is a harbinger of better things, and that is the sales level of property was twice that of acquisition. That private sector council has been helpful, and we have initiated a number of programs to speed up the process.

Chairman **Cranston**. The Mortgage Bankers Association recommends that the VA be staffed at a level adequate to enable the VA to settle lenders' claims within 30 days of the VA's acquiring title to foreclosed properties. How many FTEE and what amount of additional funding would have to be added to the budget if that were to be accomplished?

Mr. **Vogel**. Mr. Chairman, I have to make a computation and to submit it for the record, an analysis of that.

Chairman **Cranston**. Please do.

[Subsequently, the Veterans' Administration furnished the following information:]

For the 12-month period ending in December 1986, the average time taken by VA offices to process property acquisition payments was 37 days from receipt of acceptable title to dispatch of the voucher schedule to Treasury for payment. We believe with additional effort this figure could be reduced to 30 days without an overall staffing increase at the regional offices.

Chairman **Cranston**. I have been carrying on for a half-hour, and Senator Matsunaga is with us.

I would like to yield to you, Sparky, if you have a statement or questions to ask.

OPENING STATEMENT OF SENATOR MATSUNAGA

Senator **Matsunaga**. Thank you very much, Mr. Chairman, and Aloha, everyone.

I would like to extend my welcome to General Turnage, Chief Medical Director Gronvall, Chief Benefits Director Vogel, Assistant Labor Secretary Shasteen, and the representatives of the VFW, DAV, PVA, AMVETS, and The American Legion, and many of the other witnesses with us here today. I thank them for appearing before this committee to testify on the VA budget and S. 2049, legislation offered by the chairman and ranking minority member to improve VA home loan programs.

I wish to echo what Chairman Cranston has said. I have read his written statement about the VA's budget request.

On the surface, the request seems generous—the Agency is asking for $30.1 billion in budget authority and estimates outlays at $29.5 billion.

The VA says that the requested budget authority represents a $2 billion increase over current spending. However, I am told that these estimates do not reflect the full cost of compensation COLAs and the $500 million needed to keep the Loan Guarantee Revolving Fund in the black.

In addition, I understand that the budget includes over a billion dollars for the President's proposed credit reform legislation, which may be a mere paper transfer of funds between various Government accounts and not a true increase in veterans' programs.

This budget also reflects severe cuts in medical care staffing—the backbone of the VA health care system, I might say—to the tune of about 3,800 staff years, if one combines actual staff reductions with the estimated personnel needed to staff facilities that will be coming on-line.

I intend to support the chairman in helping the committee to determine the best, most feasible funding levels for the Agency's major accounts.

I also intend to pay close attention to the possible need of revising funding priorities at the program level. I know that I can depend upon the VA to cooperate with us in developing a fair, bipartisan budget recommendation which is acceptable to the Executive, to Congress, and most of all to the veterans.

Mr. Chairman, with your permission, at a convenient time, I have some questions I would like to put to the witnesses.

[The prepared statement of Senator Matsunaga appears on p. 128.]

Chairman CRANSTON. Yes, go ahead and ask them now.

Senator MATSUNAGA. In the June 1987 report of the Department of Medicine and Surgery's Hawaiian Veterans Health Care Task Force, it recommended as a long-term option that the VA build a new 165 bed medical school-affiliated VA medical center in Hawaii.

The committee, in its fiscal year 1988 construction resolution approved $27 million in site acquisition and advanced planning funds for this purpose.

In addition, establishment of the VA medical Center is supported by the Chief Medical Director and was reaffirmed as a recommended VA priority in a recent December 1987 Western Region Implementation Plan draft report

General Turnage, I was somewhat disappointed to see that no funding for a Hawaii VA medical center was included in the Agency's fiscal year 1989 budget request, despite the widespread support for it that I just mentioned—Hawaii being, as you know, along with Alaska, only one of two States in the Union to be without a VA medical center. But Alaska says it doesn't need it. Hawaii does need it and all studies show that Hawaii indeed does need it.

So, what made your decision not to include any funds for a VAMC in Hawaii?

Mr. TURNAGE. Mr. Matsunaga, I am delighted that you gave me a chance to discuss this with you personally so that you will, for the record, know where we stand in regard to it.

First of all, I have been to Hawaii, and I visited the medical authorities there who run our outpatient clinic. I went to Queens and talked with the medical authorities in the private sector. I also made an analysis of the care that we provide veterans, not only there but in that part of the Pacific, and I also had a meeting with Major General Major, who is the Commander of Tripler Army Hospital there that provides some of our backup support at the present time.

As you can appreciate, some of the complexity of that operation is further complicated by the fact that you have the five islands and you also serve other people in the Pacific as opposed to just those in the State of Hawaii.

So, we then followed up—and part of it was at your initiation, I must suggest, and your compatriot Senator from there—and we had this forum go to Hawaii to make the study.

They came back with, for the first time, a proposal that we build a hospital, as opposed to taking some other actions—for example, in concert with Queens where they had excess space in the private sector hospital to meet the needs, and which was one of the alternatives.

So, we have about three different alternatives that have been suggested out there to meet the need.

I must also suggest to you that I do not axiomatically approve every proposal that comes to me, sir; sometimes I ask for additional information. And inasmuch as this came to me for the first time that we build a hospital, as opposed to using other alternatives, it seemed to me it made sense to come up with an analysis of what the cost would be and of what the future obligations would be.

Now, it may be, sir, that the answer is to build a separate hospital and we fund it which would be redundant in some aspects with Tripler, and also be affiliated with the University of Hawaii Medical Center there. That is one, I presume, that you are proposing.

However, there are some other questions which come to my mind with regard to the future relationship with Tripler that are very important and should be considered, instead of doing it in a vacuum.

So I asked for this report. It was submitted to me, and I frankly have not had an opportunity to make the determination yet. I will do so. I will give it the very closest scrutiny, and at the very earliest possible time I will make that determination.

Senator MATSUNAGA. OMB had no part in this?

Mr. TURNAGE. Sir, I have not made the decision yet about which way we will go, and when that is made, we will ask OMB for whatever funding is necessary to accomplish it.

There are three other things there that I think you are also vitally interested in:

First of all, in order to improve the health situation, the same report came back with three increments of improvement for health care in the Pacific, some of which, the immediate initiatives, have already been implemented. For example, we have increased the staff there, we have increased some of the outreach centers in the other islands, and we have increased other things, so that Hawaiian veterans get precisely the same kind of service you would expect anywhere else. I know that you are aware of that.

Senator MATSUNAGA. Yes. I appreciate that very much, because hearings which were conducted in April of last year showed that, indeed, what the veterans were complaining of was true, that while Hawaii had a greater per capita population of veterans and disabled veterans than most other States, they were being severely underserved.

Now, Dr. Gronvall, in your February 11 letter responding to questions from Chairman Cranston and myself in followup to the committee's April hearing in Hawaii, you noted that the Agency has adopted and begun implementing the short and intermediate term recommendations of the Hawaiian Veterans Task Force, and I commend the VA and Dr. Gronvall, in particular, for this decision, which means that Hawaii's veterans, particularly those living in the less-accessible and long-neglected neighbor islands, can expect some measure of health care relief in the near future.

However, it is one thing to say that one intends to do something, and yet, of course, another thing to say when and how one will accomplish that objective.

Now, what are the costs, if estimates have been made by your agency, with implementing each of the recommendations in fiscal year 1988, fiscal year 1989, and beyond; and are they consistent with the schedule of costs outlined in the December 1987 draft of the Western Implementation Plan which the VA kindly provided me, at my request?

Dr. **Gronvall.** Yes, sir. Mr. Matsunaga, our plans and our actions are entirely consistent, and I am pleased to be able to tell you that we have taken specific action. In fact, prior to the current year, in fiscal year 1987, toward the end of the year we committed additional staff, resources, and travel dollars to begin expanding the staff at our Honolulu outpatient clinic.

You inquired about the costs. I can give some summary costs without breaking them down to individual features:

In 1987 the overall cost of our entire Hawaii health care program was some $14 million. We have made a commitment in the 1988 budget to add over $1.5 million to that. That figure is somewhat above a 10-percent increase in the actual support that will be committed to health care activities in Hawaii.

Our plan, that has been approved, calls further for an addition of another $3 million increase on top of that in fiscal year 1989. So that will be a some 20-percent increase added to the 10-percent increase that we have already committed to in fiscal year 1988.

The basis for those figures really were a decision made by me as Chief Medical Director, consistent with the recommendations of the Hawaii Task Force. The Implementation Plan that our Western Region developed then was to take the specific actions and to have a timetable to actually recruit and to clear the staff consistent with those kinds of budget actions.

So I am very pleased that we have taken specific action in the short run to strengthen our medical program in Hawaii.

I would mention just one other item. Readjustment counseling—as you recall, Mr. Matsunaga—was an expression of considerable concern when we were in Hawaii at the hearing, and the 1988 budget appropriation, which has just been received, earmarks a specific increase of 12 additional FTE staff in our Readjustment Counseling Program in Hawaii. So that commitment to expand the staff there is underway.

Senator **Matsunaga**. Are these costs provided for in the fiscal year 1989 VA budget?

Dr. **Gronvall**. The specific costs will be achieved by internal decisions, within the Department out of the total funds available to us. These figures that I gave, the $ 1.5 million and the $3 million are not specifically requested as increments to the budget in the 1989 request. But they do represent a departmental commitment, as I say, to be achieved by internal reassignment of funds available.

Senator **Matsunaga**. Now, as often happens in governmental agencies, they tend to shuffle funds within the agency, and I am somewhat concerned that the funding for recommended Hawaiian initiatives might come at the expense of other programs. Will this happen?

Dr. **Gronvall**. Mr. Matsunaga, if you ask that question and want me to be precise, my answer has to be yes, in the sense that I just indicated, that in neither our 1988 appropriation request as now enacted nor in the 1989 President's budget request that is before you are there specific incremental funds requested for the Hawaii program. And so that is why I said that the decisions we have made in 1988 and the commitment we have made projected into 1989 represent departmental internal reallocations to assign those funds to Hawaii.

To extend that, specifically with the Readjustment Counseling Program, for example, I mentioned that the 1988 appropriation, as adopted, mandates an increment of 12 FTEE to our Hawaii Readjustment Counseling Program.

The fact is that the 1987 total appropriations that the Department received for our Readjustment Counseling Program explicitly provides for 794 FTEE. The 1988 appropriation that we have just received also provides for 794 FTEE, the exact same number. Therefore, the mandate in the Appropriations Act to expand the readjustment counseling staff in Hawaii by 12 FTEE can only be accomplished by an internal redistribution. So, in that context, those staff are going to come out of readjustment counseling activities elsewhere in the country

Senator **Matsunaga**. Mr. Chairman, I have other questions. But in the interest of saving time because there are other matters I am sure you are scheduled for and I am, too, I will submit those questions in writing, and I ask that the answers be submitted for the record.

Chairman **Cranston**. Fine.

Senator **Matsunaga**. And in closing, I wish to thank you, General Turnage and Dr. Gronvall, for the great interest you have shown in the welfare of veterans in Hawaii who have, as I said earlier, been severely neglected up to now.

With your leadership, I can see a turn in the attitude toward veterans in Hawaii and for this I am truly grateful as a Senator from Hawaii, representing those 110,000 veterans.

Thank you. Thank you very much.

Mr. **Turnage**. Sir, I appreciate your comment and your perception, and please take it as a personal and professional commitment that we will continue to improve that service.

As a matter of fact, we have such an interest in your home State, we may have to visit there often to see the progress we are making. [Laughter.]

Senator **Matsunaga**. You are indeed welcome, and Aloha to the Hawaiian year-round sunshine.

Chairman **Cranston**. Thank you, Senator Matsunaga, very much.

I would like to ask that the responses to the questions he asked, and others, be in by close of business Wednesday, if that is possible.

I want to thank you, Sparky, for your participation and for your leadership in this committee, and for your help in those hearings in Hawaii a while back, and many, many other matters.

Senator **Matsunaga**. Oh, incidentally, I meant to thank staff, especially Mr. Steinberg, the Chief Counsel here, who did a tremendous job in assisting me as acting chairman during the hearings. That is for the record.

Chairman **Cranston**. Good.

Thank you very much for all of your efforts and your kind words.

Chairman **Cranston**. Back to John Vogel.

On home loans, if you had the additional FTEE available in fiscal year 1989, could they be used in a productive and cost-effective manner to provide an increased level of financial counseling to veterans in default on VA-guaranteed loans?

Mr. **Vogel**. Some level would certainly be helpful. To use the old expression "a squeaky wheel gets the oil," we intend to put 12 additional FTEE into the Houston loan service and claim area to try to improve their financial counseling.

Chairman **Cranston**. You could really double it in Houston, couldn't you?

Mr. **Vogel**. Yes, sir.

Chairman **Cranston**. So, you could use additional help out there.

Mr. **Vogel**. We have been able to shift personnel out of the loan origination part of the business into servicing and property management.

Chairman **Cranston**. Well, of course it is depriving Peter to pay Paul in some respects.

Mr. **Vogel**. Well, the workload on the incoming end is markedly down and personnel are being shifted over.

Chairman **Cranston**. In response to prehearing question 85(a), you indicated that OMB cut the VA's requested level of DVB appropriations by $27.7 million; that is, 5 percent.

I would like to ask you, John, did the DVB-requested budget have $27 million of fat in it?

Mr. **Vogel**. No, sir.

Chairman **Cranston**. Good. Then, what is being sacrificed for fiscal year 1989 to make up for that big cut?

Mr. **Vogel**. We have made some internal adjustments in the general operating expense account with respect to payroll equipment, supplies and funds for automated data processing parts.

Chairman **Cranston**. Why don't you give us that for the record?

Mr. **Vogel**. We would be pleased to, Mr. Chairman.

Chairman **Cranston**. Fine.

[Subsequently, the Veterans' Administration furnished the following information:]

The following internal program adjustments were made in the Department's General Operating Expenses account.

[Dollar amounts in thousands]

	Obligations [1]	FTEE
Executive direction	$548	25
Veterans services	(2,395)	(40)
Compensation, pension, and education	(3,410)	(58)
Loan guaranty	(2,447)	(77)
Insurance	(941)	(23)
Vocational rehabilitation and counseling	(145)	9
ADP systems management	(16,263)	(17)
Support services	(2,633)	34
Total	(27,686)	(147)

[1] Provides for the January 1988 and 1989 pay raise which was not included in the VA request.

Chairman CRANSTON. Continuing with you, John: The Independent budget recommends that 15 FTEE and $600,000 be provided for a training unit for benefits program staff in order to improve the quality and consistency of benefits adjudication. What effect would such as training unit have on the quality of VA claims adjudication?

Mr. VOGEL. We are extremely concerned with the maintenance and the improvement of quality. Just in the last 2 weeks we had a training program put on by our personnel for rating specialists throughout the United States and were able to use the Regional Medical Educational Center in Jefferson Barracks, Missouri, courtesy of the Chief Medical Director, to house those employees. We have been trying to improve and accelerate the level of training. We intend to continue to do that, bringing to bear some technologies which may be helpful such as closed circuit television and computer assisted instruction.

Chairman CRANSTON. Do you think that a training unit would be cost-effective?

Mr. VOGEL. Yes. The Deputy Chief Benefits Director for Program Management, Mr. Horton, is looking at various training alternatives. We definitely are believers in training and in equipping our people with the tools to get the job done. We have been supported in that very vigorously by the Administrator, General Turnage, during his tenure with us.

Chairman CRANSTON. With the drop in the VA loan guaranty interest rate maximum to 9.5 percent, are you still projecting a downturn in home loan originations and refinancing?

Mr. VOGEL. We still are projecting that. The large surge we had a year and a half ago was largely a pent-up demand that was satisfied with the lower interest rates. About 40 percent of that business was refinancing.

There is not much opportunity for refinancing now, because the rate changes have not been moving broadly.

Chairman CRANSTON. Well, I presume you will make a reanalysis in view of this expected decrease to 9.5 percent. Could you provide us with your current analysis with the assumptions indicated.

Mr. VOGEL. Yes, we certainly will, Mr. Chairman.

[Subsequently, the Veterans' Administration furnished the following information:]

VA's workload estimates are accurate as presented in the fiscal year 1989 budget submission. In developing fiscal year 1989 loan guaranty workload estimates we assumed that the maximum interest rate on GI home loans would fluctuate in the 9 to 11 percent range during fiscal year 1988 and fiscal year 1989. The maximum interest rate remains within this range with the February 1 decrease from 10.5 percent to 9.5 percent. We expect that appraisal and loan origination workloads will be down sharply over the fiscal year 1986-87 period. On March 3, 1986, the maximum interest rate decreased to 9.5 percent. At that time the rate had not been less than 10 percent since April 1979. During much of this period home loan interest rates had been in the 12-14 percent range. The drop in rate in early 1986 released a flood of pent-up demand for real estate financing, for new home purchases and refinancing. Much of this pent-up demand has been satisfied even though interest rates remain relatively low compared with most of the 1980's. Our estimates of fewer loans closed is consistent with projections by the Mortgage Bankers Association, National Association of Home Builders and other housing industry groups who are also predicting lower activity.

Chairman CRANSTON. The VA budget documents indicate that the VA loan guaranty subsidy appropriation that would be required as a result of the administration-proposed credit subsidy legislation would be approximately $1.34 billion. based on the administration's estimate of the amount of loans that will be guaranteed and direct loans which will be made in fiscal year 1989.

If these estimates prove to be too low, and the loan guaranty subsidy appropriation is exhausted before the end of fiscal year 1989, say in August of 1989, would additional appropriations be required for the VA to be able to continue to guarantee loans?

Mr. VOGEL. Mr. Chairman, I am not sure whether it would be necessary or not. My understanding of the total subsidy program would be that all Federal agencies would deposit in Treasury the grant equivalent amount on guaranteed and/or insured loans. Whether or not that would be a total trust fund available to all Federal entities who have money in there, I really can't answer. It is a legal question that I am not equipped to answer.

Chairman CRANSTON. But are you actually saying you don't know whether your authority to guarantee loans would be cut off?

Mr. VOGEL. I beg your pardon, sir?

Chairman CRANSTON. You are indicating you don't know whether your authority to guarantee loans would survive under these circumstances?

Mr. VOGEL. I am sorry to say, sir, I cannot answer that. Perhaps the General Counsel can assist.

Chairman CRANSTON. Here we have OMB imposing this kind of an order on the Agency, and nobody seems to know what its effect would be, including the person running the programs.

Mr. IVERS. Are you talking about the effect of the Credit Reform Act, Mr. Chairman?

Chairman CRANSTON. It is a proposal by the administration.

Mr. IVERS. We have not had an opportunity to discuss the impact or to assess the impact of that on the Loan Guaranty Revolving Fund. We will be glad to provide that assessment for the record.

Chairman CRANSTON. Well, it is obvious, then, that the administration is proposing something that the agency responsible for handling veterans' affairs does not understand and does not know what impact it will have on veterans. That is a startling situation. It is outrageous.

[Subsequently, the Veterans' Administration furnished the following information:]

At the time of the budget hearing, the Agency had not received a copy of the Credit Subsidy Legislation.

Chairman **CRANSTON**. Going on to other matters—and I am not blaming you; I think it is an outrageous situation, that the administration would create such a circumstance—if the credit subsidy legislation were enacted, would receipts from the 1-percent loan fee, from cash sales of VA-acquired foreclosed properties' and from vendee loan sales continue to be deposited in the LGRF?

I guess you don't know the answer to that question, either.

Mr. **TURNAGE**. I wanted to get back to the earlier question, because it seemed to me that there was a void here, Mr. Chairman. Obviously there was.

The proposed legislation has not been completed and given to us to review yet.

Chairman **CRANSTON**. Well, you review it before it is enacted when it is proposed by the administration.

Mr. **TURNAGE**. It has not been submitted to us from the OMB for the Agency review, sir. If we haven't received it, we certainly can't determine the implications of it yet.

Chairman **CRANSTON**. It is recommended in the budget—in your budget. There is a $1.1 billion appropriation request involved in it, and you haven't even been given a chance to analyze it?

Mr. **TURNAGE**. No, sir, not yet. We will certainly press that point when we do.

Chairman **CRANSTON**. Would you see if it is possible to provide answers to this question and the previous ones for the record?

Mr. **TURNAGE**. We will.

Chairman **CRANSTON**. This really is an astounding situation. For an administration that is seemingly trying to portray itself as handling money carefully, to make a proposal like this that nobody in the Agency that would be responsible for it is apprised of is really quite startling.

[Subsequently, the Veterans' Administration furnished the following information:]

At the time of the budget hearing, the Agency had not received a copy of the Credit Subsidy Legislation.

Chairman **CRANSTON**. Back to you, John Vogel, going on to the matter of automated data processing systems: An estimated 41,500 veterans and service persons and 185,300 reservists are projected to enroll in school under the New GI Bill this fall, an increase of 71,400 trainees over fiscal year 1988. Nevertheless, the administration is proposing a reduction of 492 staff years in DVB, and this is proposed at a time when DVB is developing a new chapter 30 monthly beneficiary payment system, to be administered nationally by the St. Louis Regional Office.

How many FTEE will be devoted to processing claims and making payments to chapter 30 New GI Bill students this fall? And are you confident that your requested staff level will be able to do so promptly?

Mr. VOGEL. I will take the latter part, if I may, first, Mr. Chairman. We will be able to handle that workload.

The chapter 30 payment system, which is the Active Duty Program, will be installed in April at the St. Louis Regional Office. As to the amount of staffing being devoted exclusively to that, I would have to provide it for the record.

[Subsequently, the Veterans' Administration furnished the following information:]

The Department of Veterans Benefits expects to have sufficient employment to meet the needs of the chapter 30 implementation. The exact number of FTEE that will be devoted to chapter 30 processing cannot be determined at this time.

Mr. VOGEL. We have increased our estimated number of trainees based on the experience of the military and the active duty individuals making the payment deduction from pay into the program.

We have a phenomenon working, whereas that program will increase in about the same time a the regular Vietnam-era GI Bill, the chapter 34 program, will decrease. We expect to be able to handle that. Whether or not we would maintain the central processing in St. Louis is an open question. We will see how that office is able to handle it and what ADP resources might be needed to otherwise handle the Reserve and Active Duty Montgomery GI Bills.

Chairman CRANSTON. So, you may shift it back in part to other regions to handle the workload?

Mr. VOGEL. We may, if we need to, Mr. Chairman.

Chairman CRANSTON. Without additional resources made available?

Mr. VOGEL. We have had a track record in the Department of Veterans' Benefits that we have been able to absorb programs even in these last few years because the workload in many other areas has declined. We now administer seven education programs, and we are proud of the fact that we have been able to do that and maintain a timely level of service.

Chairman CRANSTON. Tom, on page 2 of your testimony and page 2,012 of the fiscal year 1989 budget document, it is stated that the VA will propose language for legislative relief, with respect to the DVB funding level and automated data processing modernization funding, in the fiscal year 1988 supplemental appropriations request. What specific legislative relief are you requesting, and when will you make that request?

Colonel DEWIRE. Sir, in that request we are requesting relief from the specific employment floors in the GOE account in DVB specifically, and relief on the constraints on the utilization of the ADP monies in fiscal year 1988.

Chairman CRANSTON. Is that request a OMB?

Colonel DEWIRE. Sir that request was submitted, as I understand it, as a part of the budget process.

Chairman CRANSTON. No, it is not.

Colonel DEWIRE. Then it is at OMB, to come up later, sir. It has been approved.

Chairman CRANSTON. Would you find out the status of that and let us know Monday, if possible?

Colonel DEWIRE. Yes, sir.

Chairman CRANSTON. Thanks.

[Subsequently, the Veterans' Administration furnished the following information:]

The legislative relief was included in the narrative budget as opposed to the President's budget. Specifically, references to this relief can be found on pages 22-1, 22-12, and 26-10. The Agency is unaware of any reason for leaving the request for legislative relief out of the President's budget.

Chairman CRANSTON. John Vogel, back to you.

If the legislative relief is not provided, will layoffs of DVB employees have to occur?

Mr. VOGEL. It is really too soon to say Mr. Chairman. Right now most of the Department of Veterans Benefits is under an employment freeze. We are bringing the FTEE levels down. We are not in a freeze posture in Denver and Houston, for obvious and apparent reasons.

We would expect in early April to make an assessment of where we are with respect to on-duty strength, and then we will determine what we then need to do regarding employment throughout the rest of the fiscal year.

Chairman CRANSTON. Will that be in April?

Mr. VOGEL. We think in early April we will be able to make that assessment.

Chairman CRANSTON. If you would advise us at that time of what you find.

Mr. VOGEL. Certainly, Mr. Chairman.

Chairman CRANSTON. I want you to know that I will be working closely with both the Senate and House Appropriations Committees to secure the flexibility that you have requested with respect to the DVB FTEE level and the ADP modernization funding for fiscal year 1988. I would like to ask you, if you find that you may face layoffs, please don't make them until you consult with us, so we can see what is to and can be done before such layoffs take place.

I appreciate the efforts involved in your putting together the revised DVB and ADP modernization plans. Yet, the fiscal year 1989 budget requests only $4.1 million to support the modernization initiative. Is this amount really enough to evaluate alternative ADP system concepts? Enough to conduct an adequate cost-benefit analysis for each contract? And enough to hire contractors, all of which is required in the revised ADP modernization plan? Would you answer Yes or No to that question? Is it enough, or isn't it?

Mr. VOGEL. I am sorry, sir?

Chairman CRANSTON. If you could, just respond Yes or No. Is it enough, or isn't it enough?

Mr. VOGEL. Not where are with respect to the planning and a cost-benefit analysis that would have to go into the determination of——

Chairman CRANSTON. How much did you request for that?

Mr. VOGEL. The request was for $19 million.

Chairman CRANSTON. You asked for $19 million and you got $4 million.

Further, on ADP matters, Dr. Gronvall, with respect to the decentralized hospital computer program, would you describe the impact on the furnishing of health care services, if any, of the $1 million reduction in administrative ADP cost in the MAMOE account as mandated in your fiscal year 1988 appropriations?

Dr. GRONVALL. The $10 million reduction in 1988 will have a negative impact on the staff and activities in our central office both in regard to planning and implementing the decentralized hospital computer program and planning for the future of the next generation of computer equipment and in ADP support for central office program management activities.

It would be hard for me, I think, to translate that negative impact on our central office planning capability directly into an impact on veterans' health care, but it surely represents a significant setback for the central office support of the computerization operation that is going on in our hospitals and other health care program initiatives.

Chairman CRANSTON. Thank you.

I want to get back to drug testing. Tom, as you know, I have been deeply concerned about the cost of implementing a random mandatory drug testing program, and the diversion of scarce patient-care dollars in order to fund it.

According to your response to my prehearing question 59, the VA estimates that the total cost for the drug testing program in fiscal year 1989 will be $480,000. Frankly, I find that estimate to be completely unrealistic. That amounts to about $24 a test, which is $12 less than the VA previously estimated these tests would cost, and I believe that that estimate was too low. So I have a series of questions about this:

First what accounts for the 33 percent reduction per test?

Dr. GRONVALL. Mr. Chairman, I might be able to provide some additional comment on that. We have negotiated during this past year with the Navy, a specific agreement for them to provide the laboratory testing support that the VA would need. I think the Navy had already geared up a significant laboratory capability, and we found that when we actually negotiated an agreement with them, we were able to agree on a per-test cost that was very favorable

Chairman CRANSTON. So, the $12 reduction is entirely attributable to the reduction in the Navy's charge——

Dr. GRONVALL. I don't think that I could say that. I would have to look into that and supply the information for the record.

Chairman CRANSTON. Please do.

[Subsequently, the Veterans' Administration furnished the following information:]

The cost per test in 1988 is based on a firm price of $15 per test from the Navy laboratory which will be testing the VA samples. Collection supplies and mailing will add an additional $4 per test. The remaining cost is for employee education, supervisory training, and administrative costs. Adjustments from the previous estimate relate to a refinement in the identification of costs for existing employees who will have these functions added as collateral duties, which will require a small portion of their time.

Chairman CRANSTON. Do those estimates account for training personnel to administer and especially to monitor the taking of tests in order to ensure a secure chain of custody?

Dr. GRONVALL. Well, the overall projection of our drug testing program includes cost estimates for those components, yes, sir.

Chairman **Cranston**. But you don't have extra money for that purpose?

Dr. **Gronvall**. No, the budget request does not specifically recognize incremental amounts for that program.

Chairman **Cranston**. Do you have incremental amounts for the cost of medical review and other administrative or legal activities?

Dr. **Gronvall**. I am not sure that I understand that question.

Chairman **Cranston**. Have you taken into account the need for additional moneys in your budget to cover the cost of medical review and other administrative or legal activities in connection with testing, Tom?

Mr. **Turnage**. I was asking Mr. Steinberg if he would please put the microphone a little closer to you. It is difficult to hear, sir, some of your comments.

Chairman **Cranston**. All right.

Well, to repeat that question, do your estimates take into account, in your budgeting, the cost of medical review and other administrative or legal activities that you may face?

Dr. **Gronvall**. I can speak to the medical activities and the training efforts, and to my knowledge we have attempted as best we can to project those costs, within the level of uncertainty that always occurs prior to the time someone actually implements a major program. I cannot speak to the legal activities, so someone else would have to speak to that. Mr. Ivers, I believe, could speak to that.

Mr. **Ivers**. We have not specifically taken into account any specifically identified funding for legal activities in connection with drug testing. However, there is a sufficient amount in the, budget for us to deal with any legal activities, particularly in the coming year, that may occur with respect to drug testing.

We have one case that is pending litigation, pending implementation of the program and to date that is the only known litigation that would occur in the coming year on that.

[Subsequently, the Veterans' Administration furnished the following information:]

The case citation is: *American Federation of Government Employees Union, AFL-CIO, et al.* v. *Turnage, et al.*, C.A. No. 87-0702 (E. D. La. 1987).

Chairman **Cranston**. Fine.

Thank you very much.

I am going to ask Jon Steinberg to carry on briefly while I confer with Senator Matsunaga.

Mr. **Steinberg**. Thank you, Mr. Chairman.

Can you give us your current timetable for implementing the drug testing program?

Dr. **Gronvall**. I am not able to speak to that. I don't know whether someone here can speak precisely to that.

Mr. DeWire or Mr. Ivers, do you have a statement on that?

Mr. **Ivers**. Well, the program itself was just recently approved by the Justice Department, and it is anticipated that it would be put into effect sometime between now and the end of May. But we don't have the specific start-up date.

Mr. **Steinberg**. Thank you.

Let me, for the reporter, indicate that the individual answering questions earlier was Mr. James DeWire, who is the Chief of Staff in the Office of the Administrator.

Will you be conducting pre-employment testing as you had indicated previously you would?

Colonel DEWIRE. Sir, we would have to provide that for the record, in sync with the government-wide procedures there.

Mr. STEINBERG. Thank you. And would you also for the record give us the cost per test and the total cost for the pre-employment testing?

Colonel DEWIRE. Yes.

Mr. STEINBERG. Thank you.

[Subsequently, the Veterans' Administration furnished the following information:]

While the Justice Department has approved the Agency's drug plan, the plan must also be certified by the Department of Health and Human Services. The certification process is ongoing; implementation is expected to follow in the third quarter, fiscal year 1988.

For 1989, the cost for collecting and testing the samples is estimated at $24 per sample. Of the 20,000 tests planned for 1989, approximately 4,000 will be among the applicants for VA positions. All potential employees will be subject to testing and a sample will be randomly selected.

Mr. STEINBERG. Mr. Administrator, you may not have this information, but if you could provide it promptly for us, on testing, could you tell us exactly what the VA request was to OMB, both in dollars and FTE, for implementing and carrying out your drug testing program, in total? Does anyone have that information available now

Mr. TURNAGE. We could provide that for the record.

Mr. STEINBERG. All right. And could you break that down in addition, specifically—and we will give this to you in writing—for each of the following: test materials Navy lab costs, which Dr. Gronvall referred to earlier, training of personnel, medical review—and we are talking there about the review by a physician if a positive test is returned—additional FTE both at field stations and at the central office, and funds for FTE for expanded employer-assistance programs? If you could, include that for the record as well. And we will give this to you in writing.

[The Veterans' Administration furnished the information requested as answers to questions 59 and 108 which appear on pp. 769 and 808 in the appendix.]

Mr. STEINBERG. Dr. Gronvall, we now have quite a lengthy series of questions directed primarily to DM&S. Again, we want to thank you and all of those working with you, and certainly the Administrator for his leadership in that, in getting so many answer back to us on the prehearing questions. We know it was a great burden, and we greatly appreciate your help.

Dr. GRONVALL. Thank you.

Mr. STEINBERG. John, for each of the last 4 years Congress has provided approximately 194,000 FTE for the medical care account. In each of those years the VA has needed about 2,000 FTE for new facility activations. Is that approximately correct?

Dr. GRONVALL. Yes.

Mr. STEINBERG. So, in each of those 4 years in which you were given the same staffing number as the year before by the Congress, did you not in effect have to have the approximate equivalent of a 1-percent productivity improvement built in? That is, didn't you have to absorb those 2,000 FTE by becoming more efficient?

Dr. GRONVALL. Yes, sir.

Mr. STEINBERG. Do you believe that DM&S can go on year after year after year absorbing these kinds of 2,000 FTE new facility activitation staffing increases?

Dr. GRONVALL. I will have to make a comment on that, rather than answer it yes or no. When you add "year after year after year," when you get to some number of year after years, the answer clearly is no.

Mr. STEINBERG. And fiscal year 1989 will be the fifth year.

Dr. GRONVALL. If the overall record of the past 5, 6, 7 years is reviewed, I think it is quite clear that the Department has been able to achieve an expanded amount of medical care delivery relative to whatever the staff level was, whether that was staying level or increasing. So in that broad general sense, we have achieved a productivity increase that has in fact been above 1 percent. There are many reasons for that.

As to projections into the future, we have projected in the short run that some of those factors, including the incentive built into our resource allocation model, changes in medical practice, shifting medical care to outpatient rather than hospitalization, will continue to allow us to achieve increased efficiency.

Mr. STEINBERG. But at some point, clearly, you can't get any more efficient.

Dr. GRONVALL. Yes, sir.

Mr. STEINBERG. And at some point the hospital length of stay can't be reduced any further.

Dr. GRONVALL. Correct. And as a matter of fact, in length of stays specifically, we tend to be a reflection, of course, of what is going on in medical care in the Nation. In the Nation at large, in the private hospital sector, within the past year the length of stay bottomed out and did not continue to further decline. In the VA our length of stay is longer than in the private sector still coming down on approximately the same slope as we had seen in the private sector.

Mr. STEINBERG. How long did it take the private sector to bottom out? About 3 years?

Dr. GRONVALL. That is a trend that had been going on, both in the VA and in the private sector, considerably longer than that—actually for the past decade at least.

Mr. STEINBERG. But it was particularly accelerated by the DRGs in the Medicare Program and in man State Medicaid Programs, isn't that correct?

Dr. GRONVALL. Correct.

Mr. STEINBERG. And you say that has now bottomed out?

Dr. GRONVALL. That factor clearly was influential. In the private sector, aggregate length-of-stay data indicate that the length of stay is not going down. In fact, there are some early signals out of the community hospitals that length of stay may begin to increase slightly, particularly as a result of the rapid expansion of outpatient care, where procedures and medical activities that used to be done in 1 or 2 days in the hospital are now being done on an outpatient basis; therefore, a fair number of previous short-stay admissions now don't occur as admissions at all. And for that reason, there are a good many hospitals in the private sector that have now shown a slight increase in length of stay.

Mr. STEINBERG. And that is a trend that you are encouraging; that is, the provisions of those types of procedures on an outpatient basis in the VA system itself?

Dr. GRONVALL. Yes, sir.

Mr. STEINBERG. So, at some point you will start to replicate that trend that is now occurring in the private sector?

Dr. GRONVALL. I think that is likely, and I am willing in the short run—by that, I mean in the next year or two—to predict with reasonable certainty that our length of stay will continue to decline. But I would not be willing to predict that over a longer period, like the next 4 or 5 or 6 years, with any assurance, for exactly those reasons.

Mr. STEINBERG. Or even 2 years?

Dr. GRONVALL. Once you get beyond the next 6 or 8 months, in fact, those kinds of predictions are very hard, because they don't take into account things such as expansion of the number of AIDS patients or other unanticipated factors.

Mr. STEINBERG. I am delighted that you raised that AIDS factor. And may I just point out that, as a matter of fact, what we are talking about is in fact beyond 6 or 7 months, because this is March 1 and we are talking about a fiscal year beginning 7 months hence. So I think it is very clear that predictions of workload are a chancy business, at best.

Dr. Gronvall, do you have an implementation plan that you can give us a copy of for the fiscal year 1989 1 percent productivity reduction that you plan to implement?

Dr. GRONVALL. No. The 1-percent productivity factor that is represented in the budget would probably be implemented in essentially across-the-board fashion by pro rata FTE reduction to our medical centers, based on the relative size of the medical center. And those decisions would be made as a part of our standard budgeting and target allowance process of allocating the budget.

Mr. STEINBERG. So there is no other plan that exists in order to implement that?

Dr. GRONVALL. Correct.

Mr. STEINBERG. In response to prehearing question 64(a), you stated, "During the first half of fiscal year 1987 the staff level was approximately 3,400 FTE below the end of year actual. But all eligible veterans who applied and were in need of care were served." Yet, in response to the chairman's prehearing question 65(b) you said that no studies were performed to determine whether or not the quality or quantity of care during that time exceeded that provided veterans before or since.

We have some difficulty seeing how you can base such a major decision as reducing staff for current operations by 3,628—that is taking into account both the actual reduction and the amount needed for new activations, when we talk about current operations—how you can make such a decision as that without having the data available to support the question of whether or not there was an effect on quality or quantity of care during the fiscal year 1987 benchmark. Could you comment on that, please?

Dr. GRONVALL. Yes, I could.

I know that there is great pressure to move very quickly through the questions but that question I think does require some explanation.

Mr. STEINBERG. Could you do it relatively briefly and then amplify it for the record, please?

Dr. GRONVALL. Yes, I will.

The statement that eligible veterans were cared for during that time, even though staffing was low, can be observed by reviewing the monthly means test experience reports. Each month we document the total number of applications for care, subdivided by means test eligibility, and document the disposition of each of those cases. And so, that is the basis of the statement that care was provided.

I think that in terms of the rationale for this being a component of the 1989 budget protection, I have to say that the context for this budget, of course, was the bottom-line limitation of a 2-percent increase for discretionary programs that came out of the budget summit agreement.

To a considerable extent, then, the process of building the executive branch's budget, once that agreement was in place, was a process of starting with that kind of limitation and making the best possible set of accommodations and adjustments within it to best deploy staff and equipment and other resources in our medical care program.

Mr. STEINBERG. Thank you.

Your response to prehearing question 6(b) and 6(c) regarding the amount of nursing care needed by and actually provided to VA patients, indicates that per day VA intensive care patients are provided 2.33 nursing care hours—that is, in nursing homes—less than what they need; that intermediate care and medical patients are provided eighteen-hundredths of an hour less than they need; that surgical patients are provided twelve-hundredths of an hour less than needed; and nursing home patients, 0.43 hours less. And those are your own figures.

In view of the fact that VA patients are already receiving less nursing care across the board than your own figures say they need, what is the justification for making adjustments which will reduce staffing of your current level by, again, this 3,628 FTE?

Dr. GRONVALL. I have to answer the question, again, in the same way that the overall construction of the 1989 budget proceeded by working within a bottom-line limitation and then making the best set of accommodations and adjustments within that—not in the way that you suggest, of a positive initiative based on the data regarding staff needed in our nursing service, et cetera, et cetera, and translating that to a staffing reduction.

Mr. STEINBERG. Of course in another environment you might well be adjusting your staffing by exactly that methodology, is that correct?

Dr. GRONVALL. I am not sure what you mean.

Mr. **Steinberg.** That is, you might be determining what staffing is provided on the basis of your assessment of what staffing is needed—in another environment.

Dr. **Gronvall.** We have very detailed staffing guideline documents which describe staff needs in relation to patient care for the majority of the occupations and disciplines that are providing patient care, which are used to assist in the local decisionmaking to determine the best staffing mix.

So, those kind of factors are of important use in the Department.

Mr. **Steinberg.** Thank you.

If we understand the situation as presented in the budget, the staffing ratio benchmark used to prepare the fiscal year 1989 budget, at least the final budget, is the first half of fiscal year 1987, during which exactly the right proportions of low staffing and high productivity miraculously became in line, something like the DM&S "Age of Aquarius". And to match that 1987 experience you are proposing to eliminate 3,400 staff years approximately over the next 2 fiscal years; that is, 1989 and 1990.

Is it your position, Dr. Gronvall, that currently, during fiscal year 1988, your medical facilities are overstaffed by 3,400 FTE?

Dr. **Gronvall.** No, it is not.

Mr. **Steinberg.** In response to prehearing question 65(a), you responded that a reduction in budgeted resources associated with a productivity increase assumes improved, not inferior, workload production. What studies have you conducted or do you plan to conduct to test this assumption?

Dr. **Gronvall.** We do not have proposed studies to test that assumption. The statement, I think, has to be understood in a different concept.

The whole concept of productivity or productivity improvement is a concept of delivering the service at an equivalent level of quality, utilizing fewer staff or less resources; so, the whole concept is based on that assumption.

Mr. **Steinberg.** And is just that, an assumption.

Dr. **Gronvall.** Yes. But any individual specific productivity program would have to be designed with that assumption or objective in mind, and a particular productivity initiative has to be judged, then, on that basis, and any individual productivity initiative would be studied and would have built into it the assessment of the sort that you described, to ensure that the quality of the service being delivered was not being eroded.

Mr. **Steinberg.** I don't wish to be quarrelsome but you previously indicated to us that there was not such a productivity-increase plan that was going to be applied in the Agency; rather, that the 1-percent productivity reduction in staff would be applied across the board in the overall allocation of resources within DM&S.

Dr. **Gronvall.** The reason for that, of course, is that the 1-percent productivity factor that is displayed in the budget comes about really from a different frame of reference; namely, it is a Government-wide objective that is incorporated in the executive branch budget projections. And that assumption of a 1-percent productivity improvement is not developed in the Government-wide executive branch budget preparation through development of individual, defined, specific productivity initiatives that lead to it.

Mr. **Steinberg**. So that your 1-percent productivity increase in DM&S is not predictive of a particular DM&S productivity performance, but is part of a Government-wide effort?

Dr. **Gronvall**. That is correct.

Mr. **Steinberg**. Thank you.

Senator Rockefeller, would you like to sit up here while Senator Cranston is in the back room, or are you comfortable there?

Senator **Rockefeller**. I am comfortable here.

Mr. **Steinberg**. May I continue with one or two questions and then yield to you?

Senator **Rockefeller**. Please do.

Mr. **Steinberg**. All right.

Mr. Administrator, you made the statement in your testimony that "the budget being requested provides ample resources to furnish care to all veterans expected to apply for and be in need of care." And in response to prehearing question 99(b), you stated that the VA had requested 2,084—that is almost 2,100—FTE which OMB later disallowed. Would not those employees that you requested have been engaged in furnishing needed care to veterans?

Mr. **Turnage**. Perhaps not; it depends on where you use them. As a matter of fact, I think you know precisely that during the first part of fiscal year 1987 we started off with a much lower level than we ended up with that year, simply based on the fact that we were working on a continuing resolution; and we did not reduce the number of health care people, but the reduction came in the support people and other types of endeavors, a lot of whom were temporary in that capacity.

Mr. **Steinberg**. But nevertheless, you requested over 194,000 FTE of OMB this year.

Mr. **Turnage**. That is right. And then subsequent to that, if you recall, we ended up with the compromise which was made by your Congress and the administration that determined that the 2-percent increase was the reasonable thing to do, in keeping with the ultimate objective of reducing the deficit. It is within that, then, that we have retained compliance, and the determination was made to make that reduction

Mr. **Steinberg**. Of course, I think it is clear that what you say about the budget summit and the agreement with Congress is correct across the board; but it is equally clear that Congress made no decision as part of that agreement that any particular domestic program would suffer a 2-percent reduction.

Mr. **Turnage**. I have no difficulty with this 1-percent productivity you are talking about, Mr. Steinberg. I think that what we are doing here, the questions are pointed in such a way, that it makes a case in a very constricted framework, and I think there is a bias built into it.

For example, when we look at some of the other facts and point out that cumulative capital investment for computer support of medical care and other parts of the Agencies, in the last period from 1982 to 1989 it is almost $600 million.

And then we talk about the fact that medical equipment that has been provided for DM&S from 1981 through 1988 is $1.4 billion. And you talk about last year you had the highest point of construction in the history of the system since 1950, $776 million for new and refurbished environments for the people to receive their care. I think all of that relates to some kind of productivity that ought to be incorporated into the question process.

Mr. **Steinberg**. Thank you.

Senator Rockefeller, are you prepared to proceed now?

Senator **Rockefeller**. Yes.

OPENING STATEMENT OF SENATOR ROCKEFELLER

Senator **Rockefeller**. First of all, General Turnage, I want to say that I am very grateful to you. Our office finds it a custom when dealing with you that you and your staff have always been very helpful, and that is important. That is not always true in government agencies. Sometimes tension builds up between committee members and agencies which they watch, but that has not been the case with you and your people, and I am enormously appreciative of that and want to say so.

Some very good things are proposed in the budget, but I don't want to concentrate on them. I want ask some questions. And there are some good things that are in that budget that relate to my State of West Virginia and to other parts of the country

But I really am trying to struggle with a couple of concepts:

Your proposed veterans' outreach center cutback. I know that some people seem to think that the time is past for those. I don't understand that. In West Virginia we have four centers and the possibility of another one. There was a period of time when Vietnam veterans didn't really take advantage of them, but they now are beginning to do so.

So, if you look at a time curve, you could say, "Well, the centers have been there for a number of years, and people ought to have taken advantage of them," but the fact is that veterans, I think, are just beginning to take advantage of them.

In West Virginia—and you know our veterans history is very, very intense—I think they serve an absolutely unique purpose. When I was Governor, I was moved a couple of times to tears by Vietnam vets who told me what these outreach centers meant to them. And it is not any different now.

I wonder why the proposed cutback. And I wonder whether you have designated at this point which sites would be affected by the cutbacks? Or would it be a kind of a broad stroke at this point?

Mr. **Turnage**. First of all, I would like to put this in a different context than you may have seen or heard about, Mr. Rockefeller, to be sure that there is an understanding of our philosophy and convictions about the veterans' centers.

There are 187 of them now, and we have never at any time used the term "close" or "reduce" or otherwise. What we have tried to do, we have tried to comply with the law that was established by the Congress, which said that they would be relocated, and they said that 50 percent of that was to be accomplished during the period of 1988–89.

Now, when we started to comply with that law and we set a criteria which would be the basis on which some of these relocations would occur, we sent those to both the Senate and the House Oversight Committees for their concurrence, from the standpoint of whether or not those were reasonable in making the judgments as to which centers should be relocated. There were a number of them, to include, for example, the distance from a medical center where support could be accomplished, the reduced workload in the particular vet center, and a number of other factors: the competence of the staff, the attitude of the director of the center, the attitude and the space available within the medical center, and a myriad of other things that were to be considered.

We came up with the initial initiative that we would relocate nine of them. Subsequently, there was so much controversy associated with that action that now we put those on hold, and there have only been two relocated, and that was with the concurrence of this committee based on the fact that our lease ran out and we had to take that action.

The fact is, we are aware of the possible increase, the additional one in West Virginia and a satellite on that particular one, and we are working now to accommodate that.

The fact is, I think there is a continuing need for this center, but perhaps not with 187 of them. There is still potential, in my judgment, not only in keeping with the law which is proscribed but in keeping with the philosophy of their use that some of them may well do a better job colocated with the medical centers. And some of the criteria I mentioned should be the focal points for making that determination

On the other hand, some of them I see would have a productivity period far into the future and still would provide service that is needed.

But let me suggest one other thing about the attitude we have had. We said, "Don't only treat Vietnam veterans, treat active-duty types, treat World War II types, treat Korean veterans, or anyone else who needs that kind of help if they come to your center for help." We have tried to enhance the productivity and service that are provided by these agencies.

So this has been one of those issues that has been warped completely out of reality, from our point of view, simply because we were trying to comply with the law in an understanding way.

Senator ROCKEFELLER. I understand. So the $4.7 million cut, then, represents not closing out any of the centers but perhaps attaching some to hospital centers?

Mr. TURNAGE. This was on the basis of data that we received from the director of that operation, projecting that there would be a 10-percent decrease in the services that were required over a period of time. That has been projected before but didn't turn out to be implemented, simply because, the numbers of people utilizing the service didn't diminish as had been projected. This is for 1989, as you know. And there would be no closures, from my perception; it would be, once again, relocations.

In some cases, sir, the services provided could be enhanced by the location within the medical centers, simply because of the additional benefits associated with expertise there that is not available in the location of the current vet center.

Senator ROCKEFELLER. I understand that. So, it is not your intention to close any of the centers in West Virginia, and the Beckley addition with appropriated money looks——

Mr. TURNAGE. Sir, we have never used the term "close".

Senator ROCKEFELLER. Yes, I understand. Well, then, I am glad to hear that.

Another problem that concerns me is the Veterans Job Training Program. In West Virginia there is no way to explain how important this program has been. I think we have probably had over a thousand—I know we have had over a thousand—veterans who have taken advantage of VJTA and have gotten training through the program.

Now, the administration's budget doesn't reflect all that I would like to see on that; it proposes the elimination of the Veterans' Job Training Program.

I have several points of view on this: One is that I really think the program does a good job. Second, I fought like crazy last year to get money restored—$30 million—and I haven't noticed in the part of the country that I come from any increase in the ability of veterans to get jobs. In fact, West Virginia has the highest rate plant closings and dislocated workers of any of the 50 States. So, anything that relates to job training, whether it is for a worker who has been laid off due to imports or whatever, is important to me. Many workers can't be reemployed by themselves, they can't attend a computer school or a technical school and lay out tuition on their own. So with respect to veterans, this really seemed to me one of the very best things that we were doing through the Federal Government, outside of veterans' health care, which of course addresses massive needs.

But the VJTA Program, with 1,000 West Virginians receiving direct benefits from it, how can it be eliminated? I don't understand that, General.

Mr. TURNAGE. Mr. Rockefeller I can recognize that in your particular State, because of the specific conditions that exist there, you may have a different view than the macro view would embrace, simply because of the fact that from the standpoint of the Nation as a whole, as you know, the unemployment rate has been down and the veterans have fared very favorably in those statistics.

However, there is another aspect of it that I should invite your attention to, and I want John Vogel to give you specifics, because we have money now in that program that is not being used because applications have not kept pace with the dollar funding that has been made available to us. I think he can give you some specifics about that, if he may.

Senator ROCKEFELLER. Well, I need to hear about that.

Mr. VOGEL. Senator Rockefeller, we are running an unobligated balance and are deobligating money and making it available at a constant rate. We have, in fact, money available in that program. We anticipate closing out 1988 with $8 to $10 million and still have an additional $3 million during 1989.

Veterans can apply for that program up until June 30, 1988, and train through September of 1989. We have seen a large dropoff in veterans applications per week.

Senator ROCKEFELLER. Now, why is that? Why are 40 percent of the homeless people in this country veterans? Obviously, as the General indicated, I represent West Virginia which is in Central

Appalachia, which lies in the Rust Belt, and is part of mid-America.

In other words, I don't understand. I don't think that is true in West Virginia, with the talks that I have had with your folks down there.

Mr. VOGEL. It might not be Senator Rockefeller. I am a native West Virginian, and I am acquainted with the nature of the economy and industry in West Virginia.

You have to have a job to get Veterans' Job Training Act funds. The program doesn't seem to work so well in areas with high unemployment. There are no jobs there, because you have got to match a veteran job applicant with a employer willing to hire him or her and train him or her

We have the phenomenon now where they have very few veteran job applicants in Connecticut but very many employers willing to hire them. Obviously, Connecticut has a very, very low unemployment rate.

On a national basis, however, we are only getting about 1,600 or 1,700 applications per week. We were getting, 4 or 5 years ago, 5,000 to 6,000 applications per week. The number of jobs being filled per week is under 200 now.

Where the veteran can find an employer willing to hire him, he is eligible for the program. We certainly have the funds available to accommodate him.

The veteran unemployment rate that the Administrator referred to earlier went from somewhere in the neighborhood of 6.6 percent in September 1983 to 4.7 percent in December of 1987. And I know, Senator Rockefeller, that that is not the unemployment rate for West Virginia.

Senator ROCKEFELLER. Is it necessary, then, to eliminate a entire program because there has been a decline in the number of applications?

Mr. VOGEL. The program has funding and life. It is good, for applicant status, through the end of this June. Veterans can train through the end of fiscal year 1989.

Senator ROCKEFELLER. Well, Mr. Chairman, that is something that I know that I want to get into more. And if other parts of the country are more prosperous, I am happy for them. But I have got to represent the area that I come from, as you know.

Mr. TURNAGE. I appreciate that.

Senator ROCKEFELLER. Mr. Chairman, I didn't mean to take up too much time.

Chairman CRANSTON. That is quite all right; I think you are exactly on the right track, and I appreciate the line of questioning you were pursuing.

I yield at this time to Senator DeConcini.

[The prepared statement of Senator Rockefeller appears on p. 130.]

OPENING STATEMENT OF SENATOR DeCONCINI

Senator DECONCINI. Mr. Chairman, thank you very much. I will submit my statement for the record.

I would like to indicate that I am pleased to be able to participate here this morning, even though I cannot stay for the full hearing, because I think it is so important. At the risk of sounding a bit repetitive, because I read the chairman's statement and know his strong feelings here, I support and echo the sentiments of Senator Cranston and most members of this committee, that I believe this committee in a truly nonpartisan fashion will disapprove the administration's proposal to reduce VA health car personnel by almost 4,000. Quite frankly, I don't understand why the administration continues to attempt to do that; maybe because they know that Congress will restore it. And I stand prepared to help restore that.

Some of the questions that I will submit, General Turnage, will deal with those; if you could answer them for me, I would appreciate it.

Additional staff required for activities of the new facilities that I know that are coming on-line in my State, and I suspect in other places, the fiscal year 1989 budget request for medical care is $10.3 billion or approximately $208 million above the fiscal year 1987 appropriated level. It is $370 million, however, below the CBO estimate that will be required to fund the current level to the VA medical service. And I think we have some work cut out for us, Mr. Chairman. I am pleased to work with you

Mr. Chairman, I was shocked to learn that the President's budget completely ignores the employment need of veterans by calling for no funding for the Veterans' Job Training Act. This program has been most effective in providing long-term job opportunities for our veterans through private sector initiatives. Again, I am prepared to work with everybody here to restore these funds. I know Senator Rockefeller has been a leading force in that area, and I am glad to join him.

Chairman CRANSTON. I would like to add that you have been a great leader in the Appropriations Committee on these matters.

Senator DECONCINI. I am going to continue to do that. I can assure you, Mr. Chairman, and thank you. I also share your dissatisfaction, Mr. Chairman, with the administration's proposal for home loan credit reform. This is another proposal that attempts a paper transfer between Government accounts. The VA Home Loan Guaranty Program is the most often used benefit of veterans, and such a valuable program requires real expenditures, not cosmetic ones. In order to maintain the Loan Guaranty Trust Fund solvency, we must be willing to stand up and keep this program funded. You can count on my support, Mr. Chairman, in Appropriations and elsewhere, to work with you on it.

Last, I look forward to the testimony being presented, because I know that there are many facets of this administration in the VA that have to contend with OMB and others, and I know the commitment of the leaders of the VA, that they want to provide the best health care. It just troubles me that every year we seem to go through this rigamarole time and time again, and I am getting a little tired of it. Maybe it is because I didn't sleep very well last night.

Thank you, Mr. Chairman. I ask that the balance of my statement be put in the record.

Senator ROCKEFELLER. Mr. Chairman, could I also ask that the statement that I would have given be put in the record?

Chairman CRANSTON. Of course.

Thank you both very, very much.

[The prepared statement of Senator DeConcini appears on p. 133.]

Chairman CRANSTON. To get back to my own questioning now.

It is my understanding that staff turnover in VA medical facilities is caused in part by the heavy workload imposed on VA staff and the belief that this workload is much higher than that experienced in the private sector.

Although I believe the VA is a relatively cost-effective provider, I do have serious concerns about the effects of your proposed reduction in FTEE on employee morale, turnover, and recruitment.

John, how do you assess the risk that reducing staff and increasing workload will adversely affect morale and hence recruitment and retention?

Dr. GRONVALL. Mr. Chairman, I think it would be impossible to project in any defined way what the impact of that would be.

I could put it, I think, in a somewhat different context, that the budget projection if it turns out to be the appropriation that the Department has, I think can be accommodated in terms of the staff onboard with relatively minor or modest staffing adjustments at each of the 172 medical centers.

We, again, have seen in past years that we have been able to make significant staff adjustments throughout the system, on the order of several thousand FTEE, in relatively short order, because we do have a fair number of employees who are there for often a relatively short time, perhaps doing maintenance kinds of projects. And whenever we need to make a staff readjustment we concentrate on positions other than the core medical care provider staff.

For example, during the early part of 1987, the period that we were earlier discussing in terms of a time when the Department staff was smaller than it ended up in the second 6 months of 1987, the medical care provider staff was not reduced at all. So, we maintained a solid cadre of medical care providers and made the adjustment in other kinds of employment.

Chairman CRANSTON. In response to prehearing question 17(a), you provided a list of 51 medical centers ranging in size from 78 to 1,221 beds, which had not yet converted to a unit-dose medication distribution system.

Earlier, in a December 8, 1987 letter, in response to my inquiry regarding implementation of the unit-dose system you referred to the VA's plans to convert approximately 480 beds per year for the next 10 years.

As you know, John, this has been a keen interest of mine for a good many years now. Did the Agency budget request to OMB for fiscal year 1989 include a request for funds to implement the conversion of 480 beds in fiscal year 1989?

Dr. GRONVALL. I believe it did, but we should supply a specific answer for the record.

Chairman CRANSTON. I would appreciate it if you would, indicating how much was requested and whether it got in the budget.

Dr. GRONVALL. Yes.

[Subsequently, the Veterans' Administration furnished the following information:]

Higher priorities within the Agency precluded a request for this line item.

Chairman **Cranston**. Excluding nursing home beds, what would be the cost of converting all medical center beds to the unit-dose system in fiscal year 1989?

Dr. **Gronvall**. We would have to do the calculation. I know we have those data, and we will supply that for the record.

Chairman **Cranston**. Would you please do that for the record?

[Subsequently, the Veterans' Administration furnished the following information:]

The cost to convert the remaining beds, excluding nursing home beds, to unit-dose is $22 million.

Chairman **Cranston**. In response to my prehearing question 9(e), you stated that expenditures for DM&S special rates totalled $58.8 million from December 4, 1986 to September 30, 1987, and $22 million from October 1, 1987 to February 18, 1988. To what extent have field facilities been required to absorb these costs?

Dr. **Gronvall**. Each time we approve a special rate increase, of course, the act of approving that doesn't create any new money. And so, in each case where we have made such an approval, we have looked at the ability of the individual facility to fund the rate increase, and it has been a case-by-case judgment decision

In a number of cases we have found that the individual medical center did not have the funds available, and so we have provided a significant part of the funds increase needed out of central office allocations. So, again, it has been a case-by-case determination.

We would have to supply for the record an overall figure of how much of that funding came from funds already allocated to medical centers, and how much came from special additional central office allocations

Chairman **Cranston**. Yes. It does appear that most have been absorbed; so, if you would, give us a breakdown of that for the record, please.

Dr. **Gronvall**. Yes. We will provide the breakdown of the amounts that have been absorbed by the individual facilities.

[Subsequently, the Veterans' Administration furnished the following information:]

Of the $58.8 million cost of special rates approved in fiscal year 1987 and paid in fiscal year 1988, $10.6 million was absorbed by the field facilities. Of the $22 million approved so far in fiscal year 1988, field facilities will absorb approximately $2.5 million this year.

Chairman **Cranston**. Did the budget request which the VA originally submitted to OMB include fiscal year 1989 funds for field facilities to cover special rate requests during the balance of fiscal year 1988 and in fiscal year 1989?

Dr. **Gronvall**. I know that projection was a part of our budget development. To the specific question of what figures were in the original 1989 request to OMB, we will supply it for the record.

Chairman **Cranston**. If you would, I would appreciate it.

[Subsequently, the Veterans' Administration furnished the following information:]

The fiscal year 1989 budget request to OMB included $40 million to pay for the major portion of the fiscal year 1989 annualized cost of the special pay rate authorizations granted as of September 17, 1987. Resources to pay for the fiscal year 1989 cost of authorizations granted after this date were to come from realignments from within the appropriation. Realignments may involve having the field facilities absorb part of the costs of these more recent authorizations.

Chairman CRANSTON. At the committee's budget hearing last year, as well as at our June 24 hearing on AIDS, you testified that adjustments were being made in the resource allocation methodology to account for AIDS. What adjustments have been made, and to what extent do they meet the actual funding requirements for AIDS care?

Dr. GRONVALL. Mr. Chairman, that is a process that took what, for me, was a somewhat surprising turn. We committed last year that we would develop a DRG, a diagnosis related group that we could build into our basic budget allocation process.

It turned out that, with a great deal of effort, the judgment was made by our professional and medical center staff that it was really not a feasible way to handle the special problem of AIDS funding. The basic reason for that being that each AID patient admitted to the hospital is in fact being treated for one of the many complications of AIDS, so there is no overall or single figure that can be used for AIDS care.

The Health Care Financing Administration also dropped any further effort that they had been making to develop a DRG for AIDS.

So we are looking at other alternative ways to more accurately build in the cost of AIDS care into the ongoing budgets of the medical centers.

We have just within the last week made a special additional allocation of $10 million to our medical centers, the one that have the highest incidence of AIDS in their current caseloads. So, we made a special allocation of $10 million during the past week to our medical centers on that basis.

Chairman CRANSTON. Well, without those adjustments, is it not then true that the AIDS workload at some medical centers is exacerbating the losses that they are experiencing under the RAM?

Dr. GRONVALL. The formula calculation in the resource allocation model underestimates the cost of providing care to AIDS patients. So, the medical centers that have a sizeable AIDS caseload experience receive an underestimated amount of support through the formula in the model. And that, of course, is the reason why we selected the centers with the highest case experience and have now made a additional special allocation to them.

Chairman CRANSTON. How much of an investment was made to each of the new centers in 1989?

Dr. GRONVALL. In 1989?

Chairman CRANSTON. Rather, will be made in 1989?

Dr. GRONVALL. I don't have that figure, because any adjustment that would be built into the 1989 budget would not be made yet; we would wait until we had fiscal year 1988 case experience as a better basis.

Chairman CRANSTON. You do acknowledge there is a need for some adjustment?

Dr. GRONVALL. Absolutely. And we will, when that time comes, either make an adjustment at the outset of the budget allocation or as early in the year as we think it is appropriate to do.

Chairman **Cranston**. By when will you determine what is needed?

Dr. **Gronvall**. There will really be two steps in that process for 1989: One will be through the target allowance process, which goes on through the summer of 1988, when we make the preliminary allocations. I think it is unlikely that we will include in the target allowance allocation a specific adjustment for AIDS; I think we will wait until the actual 1989 fiscal year begins in October, and assess at that point the actual experience to date.

We have a task force chaired by Mr. Sanford Garfunckel, who is the Director of our Manhattan VA Medical Center, that is working on the issue of finding a better way to build AIDS funding into the ongoing budget operations. My expectation is that the task force will have given us some help by then, and so I would expect that during the first quarter of 1989 we would make some appropriate adjustment to the budget allocations to the centers that are experiencing a high AIDS caseload.

Chairman **Cranston**. Well, thus far in 1988, how much has gone to the new clinical centers?

Dr. **Gronvall**. In 1988 we have just allocated $10 million to the 10 medical centers that have the highest caseload experience.

Chairman **Cranston**. If you would give us a breakdown for the record, I would appreciate it. As you know, I am particularly interested in the AID funding and all problems related to it and I count on you to keep me apprised of what is happening.

Dr. **Gronvall**. We would be pleased to submit that. It goes from a high of $2,160,000 at New York to $548,000 at San Diego, with figures in between, again, based on caseload experience.

[Subsequently, the Veterans' Administration furnished the following information:]

The distribution of the $10 million special AIDS workload funding in the 2nd quarter fiscal year 1988 is as follows:

VAMC	*Proposed Funding*
New York	$2,159,468
East Orange	1,345,515
Houston	1,046,512
Bronx	946,844
Brooklyn	863,787
Miami	847,177
San Juan	813,953
West Los Angeles	797,342
San Francisco	631,229
San Diego	548,173

Chairman **Cranston**. You have an additional written question from me regarding AIDS funding adjustments. That is question 62. I would appreciate your providing those answers as soon as you can.

Dr. **Gronvall**. Yes, sir. As a matter of fact, this very morning before coming to the hearing I inquired about the status of that, and it is nearing completion, and we will submit it very soon.

Chairman **Cranston**. Is any additional funding or any additional FTEEs included in the budget for the four new AIDS clinical care units?

Dr. **Gronvall**. There is no specific recognition in the 1989 request for funding of staffing for those four clinical units.

Chairman **Cranston**. If it is all right with you, Jay, I would like to ask Jon to carry on with some questioning while we have a vote on now.

Senator **Rockefeller**. We have a vote on now?

Chairman **Cranston**. Yes.

Senator **Rockefeller**. OK.

Chairman **Cranston**. Thanks.

Jon Steinberg will carry on while we go and vote.

Mr. **Steinberg**. The budget, I believe, identifies the existence of $47 million and 506 FTEEs as being provided for AIDS treatment, according to page 6-9 of volume II of your budget document.

Do you, at this point, know where the 506 FTEEs will be drawn from, in terms of your current staffing distribution?

Dr. **Gronvall**. No, sir. Those figures that are in the budget, of course, come about as a best professional judgment of what we anticipate our caseload will be and an extrapolation of what we think the cost of AIDS care will be in 1989. And so they are put together on that basis, and then, as I have indicated, the actual deployment of support and the way we do that will be determined in 1989 when we have current experience on which to base it.

Mr. **Steinberg**. Would you please provide for the record, unless you have it now, exactly what you requested in dollars and FTE for AIDS treatment and activities in your original budget submission?

Dr. **Gronvall**. Yes, we will provide that for the record.

Mr. **Steinberg**. Thank you very much.

[Subsequently, the Veterans' Administration furnished the following information:]

In the Agency's original fiscal year 1989 budget submission, a 1988 supplemental appropriation of $47,692,000 and 506 FTEE was requested. The original budget submission also included a request to establish the 1988 supplemental resource request on a recurring basis in 1989 plus payroll and inflationary increases for a total of $48,873,000 and 506 FTEE. The 1989 President's budget provides $47,692,000 and 506 FTEE in 1988 to be funded within the 1988 appropriation level. Including payroll and inflation increases, the funded level grows to $48,873,000 in 1989.

Mr. **Steinberg**. Dr. Gronvall, as I am sure you are aware, the Presidential Commission on AIDS has very recently announced its recommendation, to place a very high priority on establishing a system of treatment on demand for IV drug users, and recently recommended that $1.5 billion be provided in Federal and State funds each year for the next 10 years in order to accomplish that goal—in other words, $15 billion over the next 10 years.

The VA, of course, has a very extensive inpatient, outpatient, and contract program for treating drug users and provides care to a very large number of veterans at risk of AIDS.

Shouldn't the VA be a leader in this effort to expand treatment in areas of high IV drug abuse? And what plans does the VA have to expand its drug treatment programs as part of this recommended initiative in high AIDS incidence areas?

Dr. **Gronvall**. Absolutely, Mr. Steinberg. It is very clear that our intent is for the VA to take a leadership position in all aspects of AIDS—not only care but research on AIDS, and education of veteran patients, and education of our staff as well as the public.

The report you referred to, of course, was just released within recent weeks. We had participated in providing information to the Commission, as you know, and have had discussions with the staff of the Commission to ensure that they have the benefit of our VA experience as the Commission did its work.

The Commission report is now being analyzed by the staff in our AIDS office that is headed by Dr. Susan Mather and through that AIDS office, plans in the VA will be coordinated with all of the other elements of the VA—clinical care elements, our research programs, our educational programs—and so we will carefully review the report, then out of it define components of VA programs which could be developed or could be expanded consistent with the report.

The report, of course, is a series of recommendations, and so the report doesn't carry with it either force of law or funding to implement proposals. So that casts it in a slightly different complexion when we look at what the VA will actually do. Those decisions in the VA are made through the usual process of program planning, proposing items into the budget either for incremental support or internal reallocations, and all of those actual decisions follow our existing decisionmaking process.

Mr. STEINBERG. But you would agree and I take it the Administrator would agree as well, that if there is an initiative to expand IV drug treatment in order to help deal with the AIDS epidemic, the VA ought to play a significant role within the Federal Government in any such initiative?

Dr. GRONVALL. I started out with the explicit answer, "Yes". I believe is an important VA responsibility, and we have demonstrated programs in place dealing with IV drug abuse. So, we should be in the forefront of any such national initiative, absolutely.

Mr. STEINBERG. And in the forefront of seeking any additional funding and resources for such an initiative?

Dr. GRONVALL. We try to keep our eye on any dollar that we see float up somewhere that could help us actually expand VA's programs, because, as always is the case, we have more program ideas to carry out than dollars available.

So if the national decision in response to that report makes more money available we will be delighted.

Mr. STEINBERG. And you will be in there pitching for it?

Dr. GRONVALL. Yes, sir.

Mr. STEINBERG. Mr. Administrator, I mentioned you before. I am sure you would like to comment.

Mr. TURNAGE. I am pleased to suggest that I will be pitching before he will be.

Mr. STEINBERG. Great.

And would you both agree, with respect to the additional $10 million that was made available to the VA for drug abuse treatment in connection with the urgent drug abuse legislation that was enacted at the end of the last Congress, that the VA was able to make effective and cost-effective use of those additional funds?

Dr. GRONVALL. Yes, sir. Beyond that statement I would have to provide a more analytical answer. But, yes.

Mr. STEINBERG. Will you do so for the record, please?

Dr. GRONVALL. Yes.

[Subsequently, the Veterans' Administration furnished the following information:]

Public Law 99-570, the Anti Drug Abuse Act of 1986, provided the Veterans' Administration with $10,395,000 as nonrecurring funds for use in fiscal year 1987 to enhance the Agency's treatment capacity for veterans with drug and other substance abuse disorders. This nonrecurring resource allocation was provided through a transfer of funds from the Alcohol, and Drug Abuse and Mental Health Administration (ADAMHA) to the Veterans' Administration at the end of the first quarter of fiscal year 1987.

These funds were distributed and utilized in the following manner:

(1) $2.6 million were added to the $5.4 million base to augment funding for the Alcohol and Drug Dependence Rehabilitation Treatment Program which provides veterans with up to 890 days of contract care in halfway houses and other community-based residential treatment facilities. In fiscal year 1986, 4,400 veterans were provided care in this program. With the funding augmentation in fiscal year 1987, 6,500 veteran patients were provided care in this program which is an increase of 2,100 patients.

(2) $2.8 million were distributed to provide three additional staff for outpatient care activities at thirty VA medical centers with specialized substance abuse treatment programs. Each facility received $93,581 to support salaries, fringe benefits and supplies for an additional psychologist, social worker and drug/alcohol rehabilitation technician.

(3) Approximately $2 million were distributed to facilities to purchase equipment for substance abuse treatment and prevention activities. Items included breatholyzers and audiovisual equipment for use in patient education programs.

(4) Approximately $3 million of the $10.395 million were not utilized during the fiscal year. The inability to use these funds primarily was due to delays in the funding transfer from ADAMHA to the VA as well as the length of time it takes to hire new staff and establish contracts with new halfway house programs.

In general the funds provided to the VA through Public Law 99-570 were as effectively used as possible given the constraints associated with increased resources made available for use during a very short period of time.

Mr. STEINBERG. Finally, and I am sure you are delighted to hear those words——

Dr. GRONVALL. No, sir, I respond to any question that you or the committee may have.

Mr. STEINBERG. I see some other pained expressions, so I appreciate your very generous and gracious response.

Dr. Gronvall, are you familiar with the project at the VA medical center at Martinez which has been urged for quite some time by that facility as well as by the affiliated medical school, The University of California at Davis, a minor construction project to add 3,000 square feet of additional space for medical research? It is about a $400,000 minor construction project. Are you aware of that?

Dr. GRONVALL. Yes, sir, I am aware of that.

Mr. STEINBERG. I think it is fair to say that this matter has been dragging on for a great many years. Could you tell us this morning what the status of the contract award is with respect to beginning construction on that addition?

Dr. GRONVALL. Susan Livingstone I know has the precise information available, and I would prefer to have her reply.

Mr. STEINBERG. Susan, could you come forward, please?

Ms. LIVINGSTONE. Yes.

Mr. Steinberg, in terms of the research addition, which is, as you correctly identified, a minor project, that project has been approved for funding in the fiscal year 1988 minor construction budget, and the construction award will be made today, March 4. Construction is anticipated to be completed by the spring of 1989.

With respect to the seismic corrections at Martinez, you are quite correct, that is a high priority project. It was approved in fiscal year 1987 for advanced planning funds.

As you know, our advanced planning fund provides planning moneys for projects for which we hope to move forward within 3 fiscal years hence. This project is on target for a fiscal year 1990 design consideration, and we hope to award the preliminary design drawings this September.

Mr. STEINBERG. You do so well do you want to speak to the status of the seismic correction problem project at Martinez, as well?

Ms. LIVINGSTONE. I am sorry, that was on Martinez.

Mr. STEINBERG. I am sorry, I meant on Palo Alto.

Ms. LIVINGSTONE. As you know, Palo Alto, again, is another high priority because of the seismic deficiencies there. There has been some delay on that project in trying to bring to resolution the actual medical bed levels for that medical center

As occurs in a system as decentralized as the VA, sometimes medical centers disagree with the central office planning data, and consequently, this disagreement must be brought to resolution.

It is my understanding, there will be a meeting in the very near future, chaired by the Department of Medicine and Surgery, to bring that issue to resolution. And again, that project we hope to move forward in fiscal year 1990.

Dr. GRONVALL. Mr. Steinberg, let me add to that, if I may, that I have only recently become aware of the fact that in the seismic correction projects at both Palo Alto and Martinez there are questions within the Department of Medicine and Surgery that remain to be resolved, and the resolution of those questions is necessary before those projects can continue.

I would like to reassure Mr. Cranston and you that I will personally see to it that we resolve those questions expeditiously and get on with the projects.

Mr. STEINBERG. Let me thank you, Dr. Gronvall, for that. As you know, Senator Cranston discussed both of those latter two projects with you and with the Administrator prior to the hearing this morning. He is keenly interested in the progress on them. They have dragged on for a long, long time. The matter is now within your shop, and we would appreciate your doing some constructive headknocking to try to get the departmental position together, so that Ms. Livingstone and the Administrator can proceed with the construction activities that have to go forward.

And Susan, on the minor construction job at Martinez, we would appreciate your staying on top of that as much as possible and keeping us apprised of exactly when that will go forward.

Ms. LIVINGSTONE. I will be pleased to do that. I will notify you when the award is made later this afternoon, and we will provide status reports of the continuing progress.

Mr. STEINBERG. But you said now that we are in a bid-opening mode at this time?

Ms. LIVINGSTONE. That is my understanding, that there were bid openings last October. There was some discussion of whether the funding availability would be there for fiscal year 1988.

There has been a recent decision made by the Department of Medicine and Surgery that indeed it will be a priority for fiscal year 1988 funding considerations in the minor construction category. So, hopefully the award will be able to be made very, very shortly.

Mr. Steinberg. Very, very shortly would be soon enough. Thank you.

Ms. Livingstone. Thank you.

Dr. Gronvall. And Mr. Steinberg, in regard to the decisions that the Department of Medicine and Surgery must make, I will assure you that they will be made expeditiously.

As is always the case, I would prefer that you leave to the Department the administrative mechanism we choose to use to carry that out. Even though you suggested headknocking, we will make a decision.

Mr. Steinberg. That is surely a fair comment. I wouldn't have it any other way.

That concludes the questions that Senator Cranston had intended to pose to you.

Mr. Administrator, we would greatly appreciate your efforts to ensure that as to the matters to be provided for the record—and the committee staff will be in touch with your staff on those matters—that we get those and any supplemental written questions that we have back by close of business Wednesday, next week.

Let me assure you that we will have a substantial number of followup questions, but we will identify only those that we need for the budget markup purposes as necessary for responses by next Wednesday, and the others will have a much longer period of time. But we would appreciate everything you could do to help us in that regard.

Mr. Turnage. We will continue to do that, as we have before.

Mr. Steinberg. As indeed you have. And I believe that our ranking minority member Senator Murkowski is going to have a substantial number of questions for the record, and he will be identifying as well those that he would like back in an expedited timeframe. We will try to make sure that those are separately itemized.

On behalf of Senator Cranston, let me note that he has asked both Mr. Vogel and Mr. Pedigo to remain for the duration of the hearing, especially to be able to hear the witnesses of the Home Loan Program that will come at the end of the session.

He would also appreciate it if Dr. Gronvall were able to remain—as he always tries to do—to hear the veterans' service organizations, if his schedule permits.

And finally, Mr. Administrator, on behalf of the chairman and the other members of the committee, I would like to thank you and John Vogel and John Gronvall and Connie Hoffman and Don Ivers and Will Ebel and Jim DeWire and Susan Livingstone and all the others who have been with you throughout this very early and lengthy session, for bearing with us. We appreciate your patience, your persistence, your perspicacity, and above all your perseverance. And we thank you very much.

Mr. Turnage. Thank you.

Mr. Steinberg. Would Mr. Shasteen please come forward?

Mr. Shasteen, Don, we welcome you. You are an old friend. You are the Assistant Secretary of Labor for Veterans' Employment and Training in the Department of Labor, and one of the foremost advocate of veterans' affairs within the administration, and of course the principal adviser to the Department of Labor in all matters affecting veterans' employment and training.

We want to thank you for your prompt response to our prehearing questions and for your timely submission of your prepared statement.

At this point, we would ask you to please summarize your statement in no less than five minutes so we will have a few moments for questions.

STATEMENT OF HON. DONALD E. SHASTEEN, ASSISTANT SECRETARY OF LABOR FOR VETERANS' EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR

Mr. **Shasteen**. Thank you very much, Jon

I am not going to bombard your frontal lobes by reading anything from my statement, which has been in your possession now I think for about 10 days.

Overall, I think we have a pretty good budget which we have submitted. I am aware of the sensitivities of the committee to a couple of aspects of it, and I would be glad to answer any further questions that you might have. I have submitted answers to a number of your questions in writing already, and I would be glad at this time to take any other questions that you or any of the other committee members might have.

[The prepared statement of Mr. Shasteen appears on p. 169.]

Mr. **Steinberg**. Don, we thank you very much for your courtesy. We have indeed had a substantial period of time to study your testimony.

You have indicated that the proposed fiscal year 1989 reduction in the LVER Program is based on a demonstrated lack of need of veterans for the job-related services provided to unemployed veterans by those LVERs.

For the program year ending June 30, 1987, more than 1.2 million, about half of the 2.5 million veterans who registered for employment services at local employment service offices nationwide, received no reportable service according to the Department of Labor statistics. Isn't this an indication of a demonstrated need rather than lack of need for more services for veterans?

Mr. **Shasteen**. Jon, I think, more than anything else, we are not doing the followup. I am concerned about that gap. I would point out that the total number of veteran applicants who came to the job service in the most recent year dropped 108,000 from the number who came the previous year. The number of veterans who were either placed in jobs or who obtained employment as the result of some service administered by the job service increased by 15,000. So, we have had an improvement in productivity during that period through this past year when we had 1,379 LVERs.

As you know, the Congress restored funds that were not in the administration's budget to continue the LVER Program at approximately the same level, 1,379. Our own formula figures indicate a need for approximately 1,457 LVERs.

We have simply submitted a budget which projects for another year the level cut that was supported under Gramm-Rudman this year.

Mr. STEINBERG. So, you are not suggesting then either that your own workload data or the data that I cited with respect to no reportable service substantiates a demonstrated lack of need for the services of these LVERs?

Mr. SHASTEEN. That is correct, and we are not going to remove LVERs from offices based upon the authority that is given to the Secretary by law to waive an LVER position based upon demonstrated lack of need. What we will do is from a very practical standpoint, the same thing we are doing right this year; and that is, make limited adjustments by reducing in a certain number of offices in each State the percentage of full-time equivalent LVER positions that we provide for. So, perhaps 125 or 130 offices will have 75-percent or 80-percent funding for their LVER position, instead of full-funding for that LVER position.

Mr. STEINBERG. And neither are your suggesting, I take it, then, that there is a demonstrated lack of need for the services of LVERs as to the need for service among disabled veterans, recently discharged veterans, or veterans whose jobs have been displaced by foreign competition?

Mr. SHASTEEN. I am not suggesting that or saying that Jon, except to the extent that the law does allow us to make that determination based upon the funding that we receive.

Mr. STEINBERG. But as to those specific categories of veterans in need of employment services, you are not suggesting there is a demonstrated lack of need for service to them?

Mr. SHASTEEN. No, I am not. I am very concerned, particularly about disabled veterans. They are our top priority. I am concerned about other hard-to-place veterans, including the homeless, as you know. We have special projects that we are carrying out in that regard.

Mr. STEINBERG. An excellent program. We have been following that program very carefully. Of course, it is the result of an initiative that Senator Murkowski and Senator Cranston took together, and we have been following it very closely.

I believe it is also the case that the BLS statistics indicate that 26 percent of all dislocated workers are veterans, even though veterans make up only 13 percent of the workforce.

Mr. SHASTEEN. That is correct.

Mr. STEINBERG. Instead of having an LVER staff reduction of 213, couldn't those 213 LVERs be used to assist veterans, this large number of veterans who are dislocated workers?

Mr. SHASTEEN. They certainly could be used for that purpose. I would hope that those dislocated workers are receiving the assistance they need from the nearest local job service office, whether we have a full-time or a part-time LVER there or not.

I say that because the law mandates that the entire office, all members of the staff of the job service, provide those priority services to veterans.

The LVERs and DVOPs traditionally provide somewhere in the neighborhood of—well, they make between 40 and 50 percent of the placements. The other half or so of the placements are made by other employees of the job service in accord with the full intent and the full spirit of the law as set forth in title 38.

Mr. **Steinberg**. Thank you.

Chairman **Cranston**. Don, I welcome you.

Mr. **Shasteen**. Thank you, Mr. Chairman, it is a privilege to be here.

Chairman **Cranston**. I am sorry I had to be absent during the first part of your testimony.

Mr. **Shasteen**. I understand.

Chairman **Cranston**. On page 4 of your testimony you state that the Department of Labor will provide funding for 213 fewer LVER staff years in fiscal year 1989 than is required by the formula in the Department's regulations.

You go on to say that this will be accomplished primarily by reducing positions from a full-time to a part-time basis in an estimated 450 local offices, and that the actual number of positions affected will depend upon the "actual position cost" for fiscal year 1989.

Mr. **Shasteen**. Yes, sir, that is correct.

Chairman **Cranston**. Since the number of positions affected will be based on actual position cost for fiscal year 1989, aren't you actually saying that the reduction in staff years is simply a product of the administration proposing to make fewer dollars available for the LVER Program?

Mr. **Shasteen**. Yes, sir; in keeping with the decision that was made by the administration and by the Congress under Gramm-Rudman this past year, we have simply projected the curent number of LVER positions for next year, or 1,252 base positions. We have the administrative positions on top of that, but we have taken those same number of positions that were settled upon in December and projected those into the next year. We feel that we can maintain the same level of services that we are providing now if we can continue with those same numbers.

Chairman **Cranston**. So what you are saying, in effect, is that you got a budget cut from OMB, and there is a corresponding reduction in the number of LVERs, is that correct?

Mr. **Shasteen**. Yes. The OMB figure——

Chairman **Cranston**. Well, if it is yes, just leave it at that yes.

Mr. **Shasteen**. The OMB figure is the same number that we have at the present time.

Chairman **Cranston**. Veterans organizations repeatedly expressed to former Secretary of Labor Brock that veterans should be a major target group in the Worker Adjustment Assistance Program. Do you agree with the opinion of the veterans service organizations with respect to veterans being a major target group?

Mr. **Shasteen**. Yes, sir, I do.

Chairman **Cranston**. Have you discussed that with Secretary McLaughlin?

Mr. **Shasteen**. Yes, sir, I have, in connection with the National Veterans Forum, which we will hold April 19, 20, and 21, starting on the morning of the 19th by gathering in the Great Hall of the Labor Department. Secretary McLaughlin will address the group. We will go into 2½ days exploring the work force needs of veterans from now on through the year 2000 and beyond.

Chairman **Cranston**. Can you tell us what her views are in regard to targeting veterans?

Mr. **Shasteen**. I can only say that she is very positive, Mr. Chairman, about our programs for veterans. She is looking to me to provide the leadership to see that the Dislocated Worker Program that is carried out by the Department of Labor does indeed provide priorities to veterans.

We are achieving this, I believe, through linkages between the job service and the Job Training Partnership Act Program. She has been very positive about that.

Chairman **Cranston**. The administration's proposed cuts in Wagner-Peyser grants would reduce overall employment service funding from $723 million in fiscal year 1988 to $678 million in fiscal year 1989. This reduction is on top of a $29 million reduction in Wagner-Peyser grants from their 1987 program level of $752 million. To what extent are you relying on nonveterans staff in local employment service offices to provide employment, job training, placement, counseling, and related services to veterans?

Mr. **Shasteen**. We are relying on those other employees—the non-DVOPs and non-LVERs—to provide about half of the most important service, and that is placement in jobs.

Unfortunately, in counseling there has been a steady drop for 4 or 5 years in the amount of counseling that is available and that is provided to veterans through the job service. We are addressing that decline through the National Veterans Training Institute by developing a special counselor training program. We will train 600 DVOPs and LVERs and other employees of the Job Service this year to provide increased counseling related services, particularly in connection with the Veterans Job Training Program.

Chairman **Cranston**. It seems to me, Don, that further reductions in general employment service staff will probably mean that an even greater percentage of unemployed veterans will receive no reportable service, thus increasing outlays for unemployment compensation payments and various programs for needy individuals and decreasing tax revenues.

Would you comment on that analogy?

Mr. **Shasteen**. Mr. Chairman, I am certainly going to use everything within the system that is within my reach to prevent that from happening.

I believe that the use of ADP equipment of computer terminals to make matches we have seen quite an increase in productivity as the result of the use of automated equipment in more and more States.

So I am going to use the personnel out there through better training, and the automated equipment that has been developed and is being acquired by more and more States, to try to prevent that from happening.

Chairman **Cranston**. On page 1 of your statement, you state that through the cooperation of the VA, approximately 11,000 veterans were placed in jobs in fiscal year 1987 through the Veterans Job Training Act bringing total placements to 54,755.

I know you were here when Senator Rockefeller and Senator DeConcini earlier expressed their very strong support for the VJTA, which I share fully. What I would like to ask now, Don, is your personal view on the effectiveness of this program in providing opportunities for long-term unemployed veterans to re-enter the work force and gain stable, permanent employment.

Mr. **Shasteen**. Mr. Chairman, that has been an excellent tool for our DVOPs and LVERs and other employees of the job service to use to put hard-to-place veterans to work. It has been a very successful program.

We have not been pleased with the percentage of terminations short of completion. Part of that counselor training program that I mentioned a moment ago is designed to improve the counseling to the point where we have fewer terminations in that program.

It is my understanding from the earlier discussion that there is still remaining about $15 million in the fund. I have not really promoted that program as much as I could, because I am waiting for completion of the work on S. 999 which would make some changes in the program, and I hesitate to spend our precious money developing promotional materials—videotape materials and printed materials—until we can bring the materials we have out there up to date with the changes that are going to be made in that program

I don't doubt for a minute that we can use the additional $15 million as soon as we go out and really target the groups that are interested in using that program, as soon as we target the employers that we know will use it if we approach them.

Chairman **Cranston**. Thank you very, very much.

We are hoping to get action on that legislation very shortly, in the next 30 days. I thank you for your testimony.

Mr. **Shasteen**. Yes, sir.

Chairman **Cranston**. Thank you.

Mr. **Shasteen**. Thank you very much.

Chairman **Cranston**. I would now like to welcome James Magill, Director of the National Legislative Service of the Veterans of Foreign Wars; Jesse Brown, Deputy National Service Director, accompanied by David Gorman, Assistant National Legislative Director for Medical Affairs, both of the Disabled American Veterans; Jack Powell, Executive Director of the Paralyzed Veterans of America; and Noel Woosley, National Service Director of AMVETS.

Before this panel begins, I would like to take this opportunity to welcome a fellow Californian, Jennie Stabile, Chair of the Real Estate Finance Committee of the National Association of Realtors.

Jennie appeared before this committee for hearings last session. I appreciate her appearance once again today. She has also devoted a tremendous amount of time and effort in working with the VA Home Loan Program, particularly through the HUD-VA Inventory Property Disposition Program.

I look forward to continuing our close relationship as we work together to strengthen the VA Home Loan Program.

I want to say that I am sorry I won't be here to hear you testify, Jennie, but we are reviewing your written testimony and will be pursuing many of the points you and other witnesses have raised through followup questions to the VA.

Now, to those at the table here, I greatly appreciate your four organizations again taking the initiative to collaborate on an independent budget, presenting an alternative to the administration's proposal. Your cooperative effort has given us valuable insight in the concerns and priorities of a very significant portion of our Nation's veterans.

My congratulations once more on a very impressive accomplishment, and this year you have taken on the entire VA budget, not just medical programs.

I particularly want to highlight and to express my agreement with your focus on noninstitutional alternative treatment methods which address the problem of reducing the cost of care while providing the most appropriate level of care, and you concerns about staffing cuts in DM&S and DVB. I plan to followup on a series of these recommendations in the context of my proposals at the March 17 markup of the committee's budget views and estimates, and to pose a number of written questions to the VA about your recommendations in addition to those I asked this morning.

Jim, if you would now proceed?

STATEMENT OF JAMES N. MAGILL, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. MAGILL. Thank you, sir.

Chairman CRANSTON. I have given you 3 extra minutes, but try to hold it to that.

Mr. MAGILL. Thank you. That is just what I was going to ask for.

The four congressionally-chartered veterans organizations namely AMVETS, the Disabled American Veterans, the Paralyzed Veterans of America, and of course the Veterans of Foreign Wars, are pleased to submit again this year a proposed fiscal year 1989 budget covering all Veterans' Administration programs, and which is independent of OMB influence.

It represents our perspective on how the Federal fiscal restraint imperative can be accommodated without inflicting irreparable damage to veterans' programs.

Basic to our recommendations is the constraint to maintain at the very least current program activity in consideration of significant present unmet needs for health care and a progressively deteriorating service in processing veterans' benefit claims.

Built-in uncontrollable costs for such items as COLA increases, pay increases, inflation and staffing of newly activated facilities amount to $1.07 billion. No increase in current program activity is to be derived from this expense.

On the other hand, if additional funds are not appropriated, a considerable cutback in the medical care and medical research will be required.

The President's budget falls short by $212 million of obtaining current program activity. Our total recommended VA appropriation level, as itemized in the VSO fiscal year 1989 Independent budget is $28.4 billion, with $28.1 billion identified for nothing more than, again, maintaining current program activity.

As is fitting in an era of austerity our proposed additional program recommendations are modest, amounting to considerably less than 2 percent of the total budget figure. They place emphasis on managerial changes to improve a benefit program, our processing, and to pursue more efficient and cost-effective modalities of health care.

We will also be sending legislative proposals for the consideration of the Congress. This will include authorized outpatient entitlements for all category-A veteran patients, provide for beneficiary travel reimbursement to all category-A veteran patients, authorize the construction of a national veterans cemetery in every State, extend program authorization for the Veterans Job Training Program, and extend program authorization for the State cemetery grants.

We four congressionally-chartered veterans organizations respectfully submit this fiscal year 1989 independent budget proposal for congressional consideration and look forward to providing further testimony on its behalf.

What I would like to do now is to go into the construction aspect.

As in other VA programs, need forms the basis for determining the appropriate level for funding for construction. However, in this, our first attempt to develop a VA construction budget we found the VA does not have the information required to formulate a needs-based construction budget.

Currently, the VA's construction priority setting is limited to choosing among projects submitted by medical centers in the 5-year facility plan. These projects may or may not address the needs of the VA on the whole, as the VA sees them, as a priority. What is actually happening is the VA does little more than pick its projects from 172 uncoordinated laundry lists.

The current prioritization method simply places restricted projects in priority order and does not address true priority needs.

The absence of a sound basis for establishing construction priorities is one of the major deficiencies in the VA construction process, identified by the careful studies the VA itself commissioned. These include excessive time required for projects—and they would be typically 10 years from conception to completion—costs that are sometimes excessive, and the inability to deal systematically with problems in the construction process.

In addressing the VA's construction needs, our most urgent concern is for the VA to develop a construction process that works well. We envision a process that completes projects more rapidly, chooses projects based on need and on a sound system for setting priorities, provides projects that adequately meet medical centers' needs, is economical as possible, and catches problems quickly before they become severe through a system of standards and indicators for monitoring ongoing performance along important dimensions, such as quality, timeliness, and cost.

Because neither we nor the VA knows what construction needs are and what construction priorities should be, we are recommending very low construction appropriations for fiscal year 1989, appropriations totaling $541 million. This is close to $225 million, or almost 30 percent, below the record construction obligations of $766 million achieved in fiscal year 1987 and is only $18 million above the very tight appropriation total enacted for fiscal year 1988.

Within this constrained total we recommend a relatively large amount for minor construction in order to provide for the updating and repairing of VA's facilities, most of which are now quite old.

With respect to specific funding levels, we recommend $368 million be appropriated for major construction in fiscal year 1989, $35 million less than in fiscal year 1988 and almost $220 million than was obligated in fiscal year 1987.

We recommend this reduction in part because, again, the VA lacks the information and processes to evaluate construction needs and in part because of general Federal budget constraints.

Within the $368 million total, we recommend $40 million for the advanced planning fund and design fund. We have specifically designated $30 million for construction of new VA nursing homes. This amount will fund four nursing homes with 120 beds each. The aging of the veteran population requires this rate in addition to new VA nursing homes for each year throughout the 1990's.

With respect to minor-construction, we recommend $169 million for fiscal year 1989. The minor construction appropriation funds smaller projects, mostly ones devoted to keeping VA facilities in repair and up to date.

Our recommendation of $169 million for this appropriation for fiscal year 1989 is an increase of $53 million from the fiscal year 1988 level. We recommend this increase because of the importance of updating and repairing VA facilities.

This concludes my portion, sir. I will be happy to respond to any questions you may have later.

Chairman CRANSTON. Thank you very much, Jim.

I would like now for Jesse and Dave to please proceed and to divide the 5 minutes we have delegated to you in whatever way you see fit.

[The prepared statement of Mr. Magill appears on p. 174.]

STATEMENT OF JESSE BROWN, DEPUTY NATIONAL SERVICE DIRECTOR, DISABLED AMERICAN VETERANS, ACCOMPANIED BY DAVID W. GORMAN, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR FOR MEDICAL AFFAIRS

Mr. BROWN. Thank you. Mr. Chairman, on behalf of the more than 1 million members of the Disabled American Veterans and its Ladies Auxiliary, may I say how very much we appreciate the opportunity to appear here today to comment on the issues described in your letter of February 5, 1988.

Our response to those issues is contained in our written statement, and we request that it be made part of the record.

Chairman CRANSTON. It will be made a part of the record.

Mr. BROWN. At the onset, we wish to make a general comment regarding the President's proposed fiscal year 1989 budget for the Veterans' Administration. In our view, the proposed budget fails to provide minimum funding to maintain current services at fiscal year 1988 levels and would make serious personnel cutbacks in both the DM&S & DVB.

The VA health care services and veterans' claim processing will suffer, should the VA budget be approved as proposed by the President.

In the interest of time, we would like to focus our oral comments on the VSO Independent Budget as it relates to the Veterans' Administration Department of DVB. The independent budget proposal seeks funding for the GOE account over and above what is necessary to maintain current services. This includes a increase in DVB employment of 543 FTE and funding designated for training of adjudication staff.

The cost of these proposals is approximately $17 million. The proposed DVB employment increases would provide 342 employees with the Compensation and Pension Service, 53 for vocational rehabilitation and counseling, and 148 for veterans' services.

With respect to training, we recommend a training staff of 15 employees to be established at a cost of $650,000. We believe that DVB program staff should provide assistance in developing educational modules and administrative support for this training unit from existing resources.

Further, training emphasis should be on employees involved in adjudicating applications for benefits. In our view, it is essential that immediate improvement in the quality and timeliness of benefit determinations be achieved.

In addition to increased staffing, improved training, we strongly support an acceleration of the ADP system modernization to include integration among all VA departments and other Federal agencies.

The reason for our proposed increases in GOE are due to the general and progressive erosion in the quality and timeliness of service provided to veterans and their families by DVB during the past decade.

This deterioration in service is parallel to the arbitrary cuts in staffing. For example, CP&E positions were reduced from 5,746 in fiscal year 1978 to 3,583 in fiscal year 1986, a reduction of 37.6 percent. During that period of time, the reduced volume of work would have justified a staffing reduction of only 18.7 percent

This conclusion is supported by the VA's own system of assigning base rates to end products. Also, quality control and training functions have not been given proper attention in DVB, primarily because no funds have been provided for these very important activities.

Due to the grossly inadequate staffing, there are huge backlogs in the VR&C program. For example, the VA vocational rehabilitation specialists have an average workload of 182 cases compared to a workload of 60 cases for their counterparts in State and other Federal rehabilitation programs.

In veterans' services 11 percent of 1.2 million telephone calls in fiscal year 1986 went unanswered because of staff overload. By anyone's standards, this is totally unacceptable service for veterans.

It is clear that in order to restore a reasonable level of service to veterans, the budgets must provide the resources necessary to perform the tasks. As the Independent budget demonstrate, this can be accomplished with a modest increase in GOE appropriations for DVB.

Moreover, for the near and long term, the Independent budget proposals are designed to increase quality and productivity and are essential for the administration of VA programs.

There are a number of other independent proposals which we request the committee give consideration and attention. They are: a COLA effective December 1, 1988. We would like to update the maximum amount for special adapted housing and automobiles. Extend the eligibility for the veterans' job training to June 30, 1989. Establish a second regional office in Florida. Provide staff and funding for the Loan Guaranty Program.

Mr. Chairman, this concludes our testimony, and I wish to thank you.

Chairman CRANSTON. Thank you very much. David, you didn't have a statement?

Mr. GORMAN. No, I didn't, Mr. Chairman.

Chairman CRANSTON. I would like to call on Jack Powell, the Executive Director of the Paralyzed Veterans of America. I apologize for the fact that I have to leave to attend to another requirement. Jon Steinberg will carry on. I will try to get back, and Senator Murkowski will be here shortly.

[The prepared statement of Mr. Brown appears on p. 188.]

STATEMENT OF R. JACK POWELL, EXECUTIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. POWELL. Thank you. Before you depart, Mr. Chairman, I would like to take just a moment and thank you very much for your personal significant efforts on behalf of a different piece of legislation, the Civil Rights Restoration Act. We sincerely appreciate it; thank you.

Chairman CRANSTON. Thank you very much. You and your organization were very helpful on that front, too, and I thank you for that, as well as for much else.

Mr. POWELL. Thank you. One of the things that I think is important to point out is that, while we represent the four veterans' organizations who have principally done the work to put together the Independent budget, I think something that gets little attention is the fact of who else endorses this budget.

This budget has been endorsed by the American Association of Spinal Cord Injury Workers by the American Nurses Association, by the Association of American Medical Colleges, and the National Association of VA Physicians.

As we begin to talk about the Independent budget, the point that I want to make is that the Independent budget is not simply a statement endorsed by four diverse veteran consumer organizations, but it is also an economic plan that is endorsed by the medical schools that are affiliated with VA hospitals and directly responsible for such a large number of health care professionals. It is endorsed by the American Nurses Association—clearly, many, many nurses in the VA system—and by the physicians themselves who work in the VA health care system.

Much has been said earlier today about the adequacy or inadequacy of the VA's budget. One of the things that we did in the process of putting together the Independent budget was conduct a survey of 21 hospital directors and chiefs of staffs.

They were asked a specific list of questions regarding the availability of resources and their ability to meet patient demand. I just want to share with you some of their responses.

Approximately two-thirds of those medical centers surveyed admitted they were formally restricting and denying outpatient services to veterans under the eligibility criteria to obviate the need for inpatient care. These veterans, who otherwise would have entitlement to inpatient care a category A, and, in most cases, medically indigent veterans, do not have clear entitlement to outpatient services.

But even when they do have eligibility under "obviate the need," the VA is denying that care. Some medical center directors indicated that the only time a category A nonservice-connected veteran could receive outpatient services was if he or she was in a acute emergency condition.

The same VA officials cited other areas where budget cuts forced them to deny or delay treatment. Some examples are, closure of bed units or de facto restriction in the number of patients treated in some units due to staffing shortages; denial of care because whole wards have been closed because of a lack of staff; long delays in surgeries due to lack of operating room staff or equipment or intensive care staff and support; denial of certain necessary elective but expensive surgery such as hip replacements due to lack of resources; inordinate delays in the provision of vital but expensive prostheses due to cost; denial of nursing home care due to extraordinarily long admitting waiting lists.

These were statements from hospital directors and chiefs of staffs. They weren't made up; these were responses to questions with problems they have to deal with every single day.

Some people say: Show us the veteran. When we show the veteran, the veteran gets care. When a veteran calls the Senator's office or the Congressman's office or a veterans' service officer, he gets care.

But I don't think you ought to have to call your Member of Congress in order to get a benefit that this Nation has awarded to veterans; and it is unfortunate, but that is happening.

We talk about a health care budget that proposes to reduce some 1,892 FTEE in the Department of Medicine and Surgery, which absolutely flies in the face of all reason.

We must remember the 1988 appropriation was $65 million less than current services for 1987; and now, we have a medical appropriation being asked for that is substantially less than the cost of inflation and substantially less than we know what medical inflation is going to be.

I realize I am just about out of time, Mr. Steinberg, but if I could make one last point?

Mr. STEINBERG. Please take 1 more minute.

Mr. POWELL. Thank you. A year ago, we talked about cutting something from something before you knew what you had to cut. We were talking about how many nurses the VA was short.

And the VA couldn't come up with an answer. They said, in fact, the first time, that they had more than enough nurses; it was just they didn't have them at the right places.

The second time, they came back a couple of months later, and said they were precisely 32.5 nurses short, not 32 and a quarter, not 32 and three-quarters, but 32 and a half.

And then they said, approximately 6 months after that, there is a major nursing shortage. I think the VA is an agency that is out of control, an agency where management is not aware of the realities of the field. I hope that, through this committee, our friends on this committee and our friends in the House, something can be done about these important issues. Thank you.

Mr. **Steinberg**. Thank you, Jack, for that very forceful testimony. Our final witness on this panel is Noel C. Woosley, the National Service Director of AMVETS. Noel, would you proceed, please?

[The prepared statement of Mr. Powell appears on p. 224.]

STATEMENT OF NOEL C. WOOSLEY, NATIONAL SERVICE DIRECTOR, AMVETS

Mr. **Woosley**. Yes. I guess I will start off by saying what I always manage to say at least twice a week. Neal's name is Noel.

Mr. **Steinberg**. My apologies. [Laughter.]

Mr. **Woosley**. AMVETS is pleased to present our views on the administration's proposed budget for the Veterans' Administration for fiscal year 1989. I will not be reading from my prepared statement, of which you have copies. However, I do ask it be considered as part of the record.

As time is a commodity we have little of, I shall endeavor to make my comments short and to the point.

We here today have witnessed the continued staffing cuts with the Department of Veterans' Benefits over the last several years. We hear time and time again that these cuts will be offset by reduced caseloads, productivity initiatives, improved automation, et cetera.

I would like to take this opportunity to state: It is just not happening. What is happening is the current average caseload of a vocational rehabilitation specialist is between 175 and 185 active cases, depending on who you talk to.

When asked, the VA department heads of this program stated that an acceptable average caseload was 100 to 125 cases. Fact. Because of reduced staffing levels within DVB, they are unable to replace those who leave or because of increased workload, are transferred to another division.

Thus, you now have a senior benefits counselor performing the duties of a GS-3 receptionist. Fact.

Senior adjudicators performing the duties of file clerks. Fact. DBV's local travel budget has been reduced to a level that makes it impossible for field staff to be effective. Fact. These are just a few of the examples of the chaos which exists in DVB due to inadequate staffing.

I would like to take a moment to talk about the Readjustment Counseling Service Vet Center Program. The cuts proposed are preposterous. This program has been scrutinized, put under a microscope, looked at, shot at, and beat up; and it comes out with most people saying it is doing an outstanding job at a cost-effective level.

I have some statistics that were presented to a committee I sit on by the staff. This year some 600,225 veterans visited the vet centers. Since its openings, some 3,256,973 veterans have visited those vet centers.

The reduction in the moneys allotted for this program was appealed by the VA to OMB, but to no avail; and yet I heard this morning that no closings were inevitable, just relocation. I find that hard to accept.

My last comment would be to some statements that have been heard in the last few days about the empty beds in VA hospitals. I have heard hospitals with 50 percent empty beds, 75, et cetera.

Well, it is AMVETS' opinion that if you do not have adequate staff and you close a wing in a hospital because of that, you will have empty beds. It is that simple. AMVETS feels sure that if this committee reviews the Independent budget proposal we are proud to be affiliated with, you will be able to take action to correct these deficiencies which create a undue hardship on America's veterans.

This concludes my remarks. I will be happy to answer any questions, at your pleasure.

Mr. STEINBERG. I would like to thank all of you and each of you very much for being so precise and concise in your testimony and summarizing your statements. Of course, we have your full and very detailed and very helpful recommendations in your prepared statements.

[The prepared statement of Mr. Woosley appears on p. 248.]

Mr. STEINBERG. Just to be 100 percent clear where each of you stands, where does each of your organizations stand on the proposed decrease of $4.7 million and 79 FTEE in the Readjustment Counseling Program in fiscal year 1989?

Noel, you just spoke to that, but I would like to go from left to right; if you would let us know first where AMVETS stands on that proposed cut.

Mr. WOOSLEY. We oppose it.

Mr. STEINBERG. Jack?

Mr. POWELL. Oppose.

Mr. MAGILL. We oppose it.

Mr. BROWN. We oppose it.

Mr. STEINBERG. Thank you. You are all aware of the success of the VJTA program in terms of placing almost 55,000 unemployed veterans in job training positions and that the program expires for new participants at the end of June and that the President's budget requests no new funds to continue the program, no legislation to extend the program. And of course, you are aware that legislation has been passed by both Houses to extend the program for a number of years.

I might note, because your organizations are very interested in this, that we would anticipate final congressional action on S. 999 and the counterpart House legislation within the next 30 days or so.

My question is: Do each of you believe that the VJTA program should be continued and new funding provided? Could we start down on the right-hand side with the DAV? Jesse?

Mr. BROWN. Yes, we believe that it should be continued. In fact, we are making a recommendation through the form outline in the Independent budget that it be continued beyond June 30.

Mr. STEINBERG. And that new funding be provided?

Mr. BROWN. Yes.

Mr. STEINBERG. Jim?

Mr. MAGILL. Yes. We also will support the program and think that funding should be provided for it.

Mr. **Steinberg**. Thank you. Jack?

Mr. **Powell**. Yes, Jon, and as a matter of fact the Independent budget has several separate legislative initiatives that are separately proposed. One of those calls for the extension of the Veterans' Job Training Act.

Mr. **Steinberg**. Thank you. Noel?

Mr. **Woosley**. Yes, we support the continuation and the funding for that program.

Mr. **Steinberg**. Thank you. Senator Cranston will be submitting a number of questions to you in specific followup on your very lengthy and detailed Independent budget separate submission on the Independent budget.

Just one or two comments and questions at this point on the Independent budget; and whichever of you would wish to answer as to the one or two questions please so indicate.

One comment. On page 45 of the budget, you note that the VA's planning for an increased nursing home census is based on the premise that the large majority of the increased census should be undertaken in the State home and community nursing home programs. You then state that you are skeptical that space will be available in State and community nursing homes to accommodate the VA's proposed expansion.

In this regard Senator Cranston wanted you to be aware that he has asked the GAO in followup to its August 1986 report entitled "Issues and Concerns for VA Nursing Home Programs," to determine whether the VA is adequately assessing its future needs for nursing home beds and its capacity to meet those needs.

So, that is something that the committee is going to be looking at very carefully, as you have recommended, with the assistance of the General Accounting Office.

Now, with respect to another matter, in response to Senator Cranston's prehearing question, 65(a), the VA stated—and I think you heard this statement quoted earlier this morning as well—the following:

> During the first half of 1987, employment was underplanned by approximately 3,400 FTE, while VA hospital inpatients treated and outpatient staff visits were over planned by 4,632 and 350,000, respectively. Quality of care is not impacted by productivity improvements. Simply stated, a reduction in budgeted resources associated with the productivity increase assumes improved, not inferior, workload production.

Would any of you like to comment on this assertion and the use of the fiscal year 1987 experience as the basis for proposing to reduce FTE by 3,400 over the next 2 fiscal years, 1989 and 1990. I guess that falls in your bailiwick, Jack, but we would welcome any supplemental comments.

Mr. **Powell**. Thank you. Jon, it is tough to comment on the answer to a question that should have been addressed to a budget that was developed in Disneyland, because it bears no relationship to reality.

Just 2 weeks ago, I had a phone call from a very disturbed veteran in New York State. This veteran was 100 percent service-connected disabled from World War II. He had a cancerous bladder that required surgical removal. He had been told to come into the VA hospital for that bladder to be removed.

He arrived at the hospital at the appointed hour and was told to go home for a couple of weeks because there was a "little" staffing shortage. The veteran called me. He was extremely upset. He had figured that if he was that far gone they were just trying to put him off easy; and he would be dead before the surgery was done.

This is a 100 percent service-connected disabled veteran. To me, that is the absolute highest priority for care. They couldn't deliver the care, while we sit and talk about the vacancies in beds.

There is a game being played, and I think we are all aware of it, between the reporting that we have to do for the 90,000 hospital and domiciliary nursing home bed level and what we actually operate.

In substantial areas of the country, hospital beds are not occupied because there is no staff to provide the treatment if a doctor admitted that patient. A doctor in all good conscience, cannot admit a patient when there is nobody to care for him.

Mr. STEINBERG. Do any others of you wish to comment on this fiscal year 1987 baseline when we had the sort of Age of Aquarius occurrence, as the VA told us, of the emerging of a downturn in FTE and an upturn in patient workload?

Dave, you haven't had much of an opportunity; I know this is your specialty. So, please, enlighten us.

Mr. GORMAN. I might not enlighten you, but I will take the opportunity.

Mr. STEINBERG. I am sure you will. [Laughter.]

Mr. GORMAN. It seems, if I understand the situation correctly the 1987 baseline that you referred to appears to be grossly inadequate and antiquated, in trying to base an FTE at this time.

What I guess my comment would be is productivity increase infers a few things, I think, and some negative. When we look at the budget specifically and at the FTEEs that might be reduced, we are seeing a lot of direct health care personnel reduced; and I think that falls into line with what Mr. Powell was saying about care and quality of care being impacted.

The workload that RNs have to contend with is simply overwhelming to them themselves. I think one other point I wanted to make as far as productivity is that it seems to us the automation efforts of the Veterans' Administration seem to assume—as you quoted earlier—the increased productivity.

And I think it is extremely important that we not take that assumption and carry it forth into a reality of reduced staff when, in fact, that computerization, which is designed to increase the productivity, has not yet occurred. That would be the only comments I would make, Mr. Steinberg.

Mr. STEINBERG. Noel, would you like to comment on that? And then Jim?

Mr. WOOSLEY. Again, if you look at staff levels, and we keep hearing about automation that is going to take care of this, I am not aware of any automation that has a bedside manner. If you lose direct health care individuals, maybe you can do your paperwork faster and lose some clerks; but how can you elaborate on a problem that is evident?

Mr. STEINBERG. All right. Jim, do you have anything to add?

Mr. MAGILL. I just would like to add that, for the past several years, we have heard the VA talking about 1 percent productivity, 2 percent productivity. There has got to be a limit on that.

And again, as you have heard, you cannot reduce the staff continually and keep saying that we are increasing productivity. The computerization is coming on line, but I don't believe that it is at the point now where they can make that statement. Thank you.

Mr. STEINBERG. Thank you. That concludes the questions we have for you at this point. We would like to invite each of you, upon reflection, to submit to us in writing any comments that you have on the testimony received prior to yours and subsequent to yours this morning. We would very much welcome your insight on that. And again, we are very grateful for the work that your organizations have done in collaborating on the Independent budget. We think it is extremely helpful to us, to the members of the committee, and to the staff of the committee.

We hope you will keep it up, and we greatly appreciate the work that was done by Don Custis and all the individuals working with him in putting this together. So, we thank you for your patience and for bearing with us through this lengthy hearing this morning. And we look forward to any additional comments and views that you have to give us on the matters before us. Thank you.

Tony, did you have anything for this panel?

[The comments furnished appear on pp. 245 and 304.]

Mr. PRINCIPI. No, I don't.

Mr. STEINBERG. If the next panel would please come forward. That panel consists of Mr. John Sommer, Director of Veterans' Affairs and Rehabilitation, and Mr. Dennis Rhoades, both of The American Legion, Mr. Rhoades is Director of Economics for the Legion; Mr. Thomas Sherwood, Director of Health Policy and Planning, and Mr. Paul Egan, Legislative Director, of the Vietnam Veterans of America.

We welcome all of you here this morning and each of your organizations. We would ask The American Legion if you would please lead off and summarize your prepared testimony in the 5 minutes allotted. We do have your prepared statements—each of yours—and they have been very helpful; and they will appear in full in the record.

STATEMENT OF JOHN F. SOMMER, DIRECTOR, NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION, THE AMERICAN LEGION, ACCOMPANIED BY DENNIS K. RHOADES, DIRECTOR, NATIONAL ECONOMICS COMMISSION

Mr. SOMMER. Thank you, Mr. Chief Counsel. For the record, my name is John Sommer, Director of Veterans Affairs and Rehabilitation. I will begin, and then I will yield the second half of the 5 minutes to Dennis Rhoades.

To The American Legion, probably the most critical area of the proposed fiscal year 1989 budget for the Veterans' Administration relates to the personnel losses in the Departments of Veterans' Benefits and Medicine and Surgery

If the proposed employment reductions are enacted, the Department of Veterans' Benefits will have been reduced by well over

6,000 FTEE since 1979. However, amid lawsuits, complaints by veterans and service officers, reports reflecting a deterioration of timeliness and a myriad of other negative factors, the Office of Management and Budget continues to chip away at the DVB employment level.

Likewise, schemes such as the 1 percent productivity increase that was discussed in detail earlier, and other grand designs, have amounted to a proposed decrease of 4,270 FTEE in the Department of Medicine and Surgery at a time that beds are closed because of inadequate staffing.

These reductions will undoubtedly lead to irreparable damage to the VA medical care system.

We are also strictly opposed to the decrease of $4.7 million and 79 FTEE in the Vet Center Program. It seem quite apparent to us that OMB has no concept of the importance of adequate staffing.

With respect to medical construction, it concerns us that there is only one replacement hospital projected for fiscal year 1989, and that there is a proposed decrease of $62.3 million from the current year replacement and modernization account.

We feel there is a need also to reiterate our concern that the VA must expand its independent nursing home care unit construction. The proposed 120 bed nursing home addition at Tampa, while badly needed, will only put a dent in the demand for this level of care in that State, not to mention that there is a great need for additional nursing beds in other parts of the country.

And with that, I will turn over the rest of the time to Dennis Rhoades, our Director of Economics.

Mr. STEINBERG. Thank you, John. Dennis, we welcome you.

Mr. RHOADES. Thank you. I am going to be very brief, as John was. I want to first touch on the VA Home Loan Program. I think it is very clear to everybody here the Loan Guaranty Revolving Fund is hemorrhaging; and will cost nearly a billion dollars in 1988.

Frankly, we believe, judging from the experience with last year's budget, that the 1989 budget figure of $685 million is probably rosy, and we may once again hit the billion dollar level for 1989.

There is a continuing process of changing VA policies on marketing, property acquisition, appraisals, and so forth; and this process must go on in order to assure that dollars are not being lost through inappropriate program management.

We believe, however, that an even more penetrating inquiry needs to be undertaken. For the first 35 years of its existence, the VA Home Loan Program was in fact the beneficiary of two favorable trends. One was growing and gradual inflation—and by the way, between 1944 and 1977, that amounted to about 200 percent—and that trend permitted, in good years, the sales recapture of obligation costs.

The second trend was the growing income and resulting surplus that developed in the direct loan program to supplement the Loan Guaranty Revolving Fund in years of economic decline. Of course, that funding source is now virtually depleted.

Regarding S. 2049, The American Legion supports the creation of the commission proposed in the bill, but we believe the commission should devote time to evaluating how the evolution of the economy, since 1944 and particularly in the last decade, has affected the LGRF's capacity for self-sufficiency, even in good years.

We also believe the commission should not become a vehicle for putting the Home Loan Program out of business. The program's entitlement basis must continue, and that must be a strong underpinning for the commission's charge.

Turning to the Department of Labor just briefly, we note that there are no funds for VJTA; but I think that surprises no one. We look forward to the passage of S. 999. We urge its expeditious passage so that we can stay ahead of the budget cycle.

Also, one final point, we do note that the travel for the Veterans Employment Training Service will require fairly drastic reductions in fiscal year 1989; and if S. 999 is to achieve its full value then DOL staff must not be chained to their desks.

That concludes our testimony, Mr. Steinberg.

[The prepared statement of Mr. Sommer and Mr. Rhoades appears on p. 253.]

Mr. STEINBERG. Thank you very much, Dennis and John. And now we turn to the Vietnam Veterans of America, Tom and Paul. Who will lead off?

Mr. EGAN. I will lead off.

Mr. STEINBERG. Welcome, Paul.

STATEMENT OF THOMAS A. SHERWOOD, DIRECTOR OF HEALTH POLICY AND PLANNING, VIETNAM VETERANS OF AMERICA, ACCOMPANIED BY PAUL S. EGAN, LEGISLATIVE DIRECTOR

Mr. EGAN. Thank you. Our statement is a collaborative effort, and Tom Sherwood will summarize for us; but I would like to make one comment about the Home Loan Program, with specific reference to the legislation introduced by Senator Cranston.

We, too, support that legislation, but we think that the committee needs to be cautioned that the commission not be overloaded with industry representatives. In that connection, I think it is useful to remind the committee once again that this is not a bankers' program, a builders' program, or a realtors' program. It is first and foremost a veterans' benefit program.

Each of us is prepared to answer your questions after Tom's summary.

Mr. STEINBERG. Tom, welcome, and please proceed.

Mr. SHERWOOD. Thank you very much. Very briefly, I, too, must express some concern with regard to the readjustment program. The $4.7 million and/or plus 79 FTE and/or plus the approximately $5 million that is spent in contract services in that program would, in fact, result in a cut that would take the program from approximately $41 million to $29 million, which clearly suggests or implies that there is a intent to in fact gut the program.

In addition to that, the rationale for the $4.7 million cut has been linked to the long-term care program. So, we have a clinical program in competition with a clinical program. The VA has set up generational competition between young and older veterans, and I don't think that that is the appropriate kind of signal the agency should be sending.

There are approximately 36,000 vets that are expected to come off the education GI bill, which will accumulate in fiscal year 1989 about $84 million. That is $84 million which potentially could be available for direct health care programs including continuation of the vet centers.

We are also concerned with the total representation of patients in the mental health system. For instance, approximately 40 percent of the beds at any given time will be occupied by mentally disabled. Yet, the percentage of the total budget for DM&S is less than 10 percent dedicated for mental health care.

I don't think that is a good priority and I don't think that represents the realities of the kinds of services we need to be rendering.

Finally, in addition to comments that we made before, the resource allocation methodology still continues to be a problem. It is true that, since our last testimony, the Veterans' Administration has made an attempt to communicate aspects of that program; so at least the medical center directors and the users of that system have a better idea of how the program works.

But by no means do the medical center directors and those who are on line in terms of delivering the services really feel that they have any ownership of the resource allocation methodology; and that is problematic.

That points to, in fact, a larger political and/or a philosophical issue. The fact of the matter is in today's complex health delivery system it is almost unrealistic to really expect from any centralized system to manage in this country 172 hospitals.

The fact is the system is backwards. Instead of doing the resource allocation methodology and the kinds of resources that are required to run the system from the bottom, it is done from the top.

I would myself recommend that we dispense with the VACO resource allocation methodology and allow that methodology to be built from the medical center level, that the medical centers that have to deliver the service make the kinds of determinations that are required to do the job.

The system in this top-down approach continues to be antiquated and will continue to be so unless adjustments are made. And what suffers, of course, in a system that is top-down like that is the persons in the systems who are the most important; and that is the veteran. The veteran always in these kinds of political systems—these top-down systems—really end up losing out in terms of having the ability to have some say-so over the quality of care that is delivered in the system.

My final comment is that veterans perhaps should sit on boards in each of the medical centers and allow the medical center directors to at least in part report to those veterans on those boards in the medical centers.

Thank you very much. That concludes my statement.

Mr. STEINBERG. Thank you very much, Tom. And thanks to each of you for your concise summary of your testimony. Your prepared statements were very informative and very detailed, and we appreciate all the effort that went into them, under these short time constraints.

And let me extend that same appreciation to the prior panelists.

[The prepared statement of Mr. Sherwood and Mr. Egan appears on p. 288.]

Mr. **STEINBERG**. We appreciate very much—and I know that Senator Murkowski shares in this—the support that each of you expressed for S. 2049; and we appreciate the comments and suggestions that you have made—and that the prior panelists made—in your testimony this morning with respect to some possible improvements that you think could be made in that legislation.

Just to reiterate two questions that we asked the last panel, so that you are clearly on the record on this matter: With respect to the readjustment counseling program, does The American Legion and does the Vietnam Veterans of America support or oppose the $4.7 million proposed reduction in the Readjustment Counseling Program? Would you like to answer first, John?

Mr. **SOMMER**. Yes, Jon, The American Legion opposes those proposals.

Mr. **STEINBERG**. Thank you. VVA, Tom?

Mr. **SHERWOOD**. The VVA opposes those proposals.

Mr. **STEINBERG**. Indeed, you stated in your direct statement.

With respect to the VJTA Program, upon which Dennis also commented, just for the record, to be clear: Do each of your organizations believe that this program should be extended and new funding provided? Would you like to start off, Paul?

Mr. **EGAN**. It should be extended and new funding should be provided.

Mr. **STEINBERG**. Thank you. Dennis?

Mr. **RHOADES**. We favor a multiyear extension with appropriate funding.

Mr. **STEINBERG**. Thank you, each of you. It would be very helpful to the committee if you would be willing to look at the specific recommendations which were made to us in the Independent budget and to let us know if you have a position on those recommendations, whether or not you agree with on disagree with those specific recommendations; and if you would be able to give us that information by close of business next Wednesday, that would be very helpful to us in our consideration of those matters.

We value your advice and assistance on all the matters before us.

Let me also note for the record that those who assisted Dr. Custis in preparation of the Independent budget were Frank Morrell and Lauri Webb, and we wish to acknowledge their fine work in that regard as well.

Mr. **STEINBERG**. Finally, let me extend to each of you the same opportunity that I did to the preceding panel; and that is, as you reflect on the testimony this morning, preceding you or following you, if you would like to share with us any particular reflections that you have, we would very much like to have them.

Finally, let me note Senator Cranston's regret in having to depart after 3 hours this morning. It is always a difficult balance to strike in deciding how to allot scarce resources, and senatorial time these days is one of those resources.

We hope you will understand that we think it is critically important to try to pursue the matters and ask the questions which were raised in the questioning of the Administration.

We seldom have any differences with your organizations. We have had the benefit of your excellent, detailed prepared statements. And so, as has happened in the past, we sort of ran out of time; but we hope you will understand the way the time was allocated.

And finally, let me welcome as the Director of the Veterans 'Affairs and Rehabilitation Commission, John Sommer, for his first appearance as Director before this committee. We wanted to note your new position and your elevation, and we look forward to working with you.

Mr. SOMMER. Thank you very much, Jon.

Mr. STEINBERG. Thank you all very much.

If the next panel would please come forward? They are a panel representing the housing industry. Jennie R. Stabile of Tarzana, California, about whom Senator Cranston had some remarks earlier; she is the Chair of the Real Estate Finance Committee of the National Association of Realtors. Robert M. O'Toole, Staff Vice President, Residential Finance/ Government Agency Relations of the Mortgage Bankers Association of America, and an old friend of this committee and a new friend of this committee's. And Shirley McVay Wiseman of Lexington, Kentucky, the First Vice President of the National Association of Home Builders.

Before you begin, let me note that, as Senator Cranston requested as he does customarily—Dr. Gronvall remained throughout the testimony of the service organizations. We express our appreciation to him for that and note also that Mr. Vogel and Mr. Pedigo continue their presence here to hear what this panel has to say and what our last panel will have to say.

On behalf of Senator Cranston again, welcome. And I would say on behalf of Senator Murkowski, we regret the time constraints that we are operating under this morning. We welcome you. Jennie, you have come the longest way, so why don't you be the first?

STATEMENT OF JENNIE L. STABILE, CHAIR, REAL ESTATE FINANCE COMMITTEE, NATIONAL ASSOCIATION OF REALTORS

Ms. STABILE. Thank you, Jon.

Mr. STEINBERG. And we ask that you summarize, please.

Ms. STABILE. Yes. My name is Jennie Stabile, and I am a Realtor from Tarzana, California. I am also the 1988 Chairman of the Real Estate Finance Committee for the National Association of Realtors.

On behalf of more than 800,000 members of our association, I want to thank you and the members of the committee for the opportunity to present our views on the VA Home Loan Guaranty Program and Senate bill 2049.

We commend the efforts of the chairman and the Senate Veterans' Affairs Committee during deliberation of the Veterans' Home Loan Guaranty Program Improvements and Property Rehabilitation Act of 1987. We are pleased to work with you on this important legislation.

The National Association of Realtors believes that it is imperative for Congress to develop a formal national housing policy that provides a reasoned framework to address this Nation's housing needs. A housing policy for veterans should also be incorporated within its context.

We commend the chairman of this committee for taking the initiative in this effort and pledge our support to work toward fulfillment of this goal.

As requested, we are pleased to offer our comments and views on the following legislative proposals governing the VA Home Loan Guaranty Program.

The Administration has resubmitted its budget proposal containing the controversial credit reform provision. The National Association of Realtors opposes credit reform and requests that you, once again, join with us in our efforts to ensure that this proposal will be subjected to the necessary due process requirements provided for policy changes of this magnitude.

Mr. Chairman, we received your request for detailed commentary on this proposal, after having submitted our written testimony. We will provide a full written response as you requested by March 8.

Mr. **Steinberg**. Thank you. We very much appreciate that.

Ms. **Stabile**. We will get it to you, and we would request that it be included in the record.

Mr. **Steinberg**. It will be.

Ms. **Stabile**. NAR does not oppose the negotiated VA interest rate that is being proposed. We feel that this is an important step in keeping the program responsive to the changing economic and financial needs of all veterans. The VA Home Loan Guaranty Program was established by the Servicemen's Readjustment Act of 1944 to assist eligible veterans to become homeowners. Its administrative costs and mortgage claims have been paid from the VA Loan Guaranty Revolving Fund.

With the termination of the Direct Loan Revolving Fund, which historically supplemented the fund, the VA was required to sell the majority of its direct loans, resulting in the loss of a steady income stream.

Also, the recent economic downturns which increased the number of loan defaults and foreclosures were beyond the control of veteran homeowners. The National Association of Realtors believes that these situations have threatened the viability of the VA Home Loan Guaranty Program by substantially increasing program costs, thus indicating the need for higher appropriations.

We share the growing concern over the financial stability of the VA Loan Guaranty Revolving Fund and commend the VA for taking steps to deal with some of these problems by tightening its underwriting standard criteria and revising some of its appraisal practices.

We are aware of the need to reduce claims against the fund. We believe that voluntary deed conveyance can be an expeditious means of terminating a delinquent loan. This alternative avoids the often cumbersome foreclosure process, allowing VA to acquire the property more quickly, without the related acquisition costs.

The Association realizes that the VA frequently offers below market rate loans to compete with homeowners in economically distressed areas, who may offer below market rate seller financing to attract buyers for their properties

Although we support efforts to expedite the disposition of VA's inventory, we are concerned about how the subsidy for these below market rate loans would be funded. We urge the committee to investigate and evaluate these costs to determine whether they are justifiable when compared to minimum cost alternatives such as aggressive property disposition programs.

Regarding vendee loans, as in the past the National Association of Realtors continues to oppose any legislation that hampers the easy assumption of VA guaranteed mortgages. The assumability feature on mortgages has proven to be instrumental in increasing the marketability of VA inventory properties and, during periods of rising interest rates, it has often substantially enhanced the value of a home.

Another requirement, such as the recently reversed 5 percent downpayment, added significant costs to the borrower and made the loans unattractive. A change in the assumability of VA mortgages could have a long-term negative impact on the VA Loan Guaranty Revolving Fund.

Potential home buyers who are able to take over the mortgage payments from financially distressed sellers will no longer be able to afford the time and costs imposed by the new requirements to assume the mortgages, thus increasing defaults.

Since the long-term consequences could substantially affect the solvency of the program, we strongly urge the committee to carefully reexamine this provision.

Regarding property disposition, the National Association of Realtors and VA have developed a successful property disposition program to educate real estate professionals about their proper procedures to sell a VA inventoried home.

In realizing the cost for VA to market inventoried properties, several local boards, including Denver, which has approximately 17,000 properties, have waived the listing fee and voluntarily placed the properties in their local Multiple Listing Service (MLS).

Our visits to regional VA offices have indicated that VA Home Loan Guaranty departments are understaffed and lack adequate resources, especially in the property management section. To assist in this department, our Denver members have even volunteered to send college students to perform general office duties, such as answering the telephones and opening bids; however, due to the confidentiality of loan applications, the VA cannot accept this assistance.

If this or any other program to increase sales of VA inventoried properties is to work, VA must be provided with the adequate resources to accomplish this mission.

We appreciate the opportunity to present our views on the proposed 1989 budget and Senate legislation. I will be happy to answer any questions. Thank you.

Mr. STEINBERG. Thank you very much, and thank you for traveling such a long distance to be with us. I believe that Ms. Wiseman has traveled the next longest distance; so, we would like to hear from you next. We welcome you back for a return appearance before us. We are pleased to see you again.

[The prepared statement of Ms. Stabile appears on p. 306.]

STATEMENT OF SHIRLEY McVAY WISEMAN, FIRST VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Ms. WISEMAN. Good morning. My name is Shirley McVay Wiseman, and I am the First Vice President of the National Association of Home Builders, representing our 150,000 members and their 8 million employees involved in housing and real estate industries.

I am familiar with the FHA and VA programs, both as a builder and as a former Deputy Assistant Secretary for Housing at the Department of Housing and Urban Development.

We support the efforts in S. 2049 to establish an independent commission on the Home Loan Guaranty Program and oppose provisions in the administration's fiscal year 1989 budget, which calls for a negotiated interest rate and Federal credit reforms.

It is important that the VA Home Loan Guaranty Program be sustained and run in an efficient manner. We don't believe that temporary increases in foreclosures or downturns in certain parts of the country should lead to cutbacks in the benefits of the programs.

The nature of an entitlement is fundamentally different from that of traditional financing programs and requires a higher level of commitment from the Congress. Congress and the independent commission should focus on the long-term goals and performance of the Home Loan Guaranty Program and evaluate program changes on this basis since it continues to assist the people that it was intended to serve and continues to attract qualified men and women into the service.

In the interim, it is important to support appropriations for the Loan Guaranty Revolving Fund and to oppose increased fees to supplement the program.

As you are aware, a pilot program for an adjustable rate mortgage, with interest caps, was dropped in the conference on the VA bill that passed last December. We urge the Congress and the commission to support authorization for the VA to offer this type of mortgage instrument since over 40 percent of the mortgage loans made last year were ARMs.

NAHB would be willing to work with the VA to develop information about the performance of ARMs to address the concerns of veterans' groups about the safety and soundness of an ARM.

We are concerned that the property disposition plans being considered now by the Congress and the VA may adversely affect the ne home-buying market. While the intent is to make the disposition of VA acquired properties more saleable in depressed market areas, care should be taken to avoid the dumping of properties which would make other home sales noncompetitive.

An alternative to distressed sales of foreclosed properties might be to hold the property on the market for a temporary period as a rental unit rather than selling them below the market.

Concerning the composition of the nine-member independent commission, I would like to make the following suggestions. Of the nine members to be appointed to the commission, only four are to represent banking, housing, and real estate.

We hope that you will increase their representation on the commission from four to six and will name the chairman from that group. These groups deal with VA loans on a daily basis and have direct knowledge of the successes and needs of the program.

We also urge that Ginnie Mae be made an ex officio member since most VA loans are secured by Ginnie Mae in the secondary market and make up about one-third of their collateral.

We are opposed to elimination of the VA administered rate as proposed in the fiscal year 1989 budget. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose their stable measure of the cost of mortgage credit, a feature which becomes even more important in a volatile interest rate environment.

We strongly oppose credit reform measures which attempt to restrict Federal mortgage credit activities of the VA and other Government housing programs. The administration changes the way Federal credit programs are treated in the budget and would require Federal agencies to seek direct appropriations from Congress.

This action is just another way to restrict Federal housing credit and ignores the entitlement nature of the VA program.

In conclusion, we hope that careful analysis will be given to retaining the entitlement nature of the VA Home Loan Guaranty Program while trying to streamline it, and make it self-sufficient.

Congress, the administration, and the independent commission must continue the responsibility of providing assistance to veterans for the purchase of housing.

Thank you for allowing us to testify, and we will be happy to answer any questions.

Mr. STEINBERG. Thank you for that very excellent statement and for your concise summarization. Let me make just a brief comment or two.

We have had recommendations from the administration as well as from a number of others that Ginnie Mae be represented as an ex officio member on the proposed commission. I doubt that that will be any problem, although we note that the Administrator, under the terms of the legislation, would have the authority to add Ginnie Mae if he wished.

On the issue of the overall composition of the commission, I might note that we can't be doing everything wrong because each of the various components seems to believe that its particular component is underrepresented. So, we must be walking down a reasonably in-between line.

But obviously, we will look at your recommendations as well as the recommendations of our preceding witnesses very carefully, and we do appreciate your recommendations.

Bob O'Toole, representing the Mortgage Bankers Association of America, is the final witness on this panel. Bob, we are always delighted to have you with us.

[The prepared statement of Ms. Wiseman appears on p. 318.]

STATEMENT OF ROBERT M. O'TOOLE, STAFF VICE PRESIDENT, RESIDENTIAL FINANCE AND GOVERNMENT AGENCY RELATIONS, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. O'TOOLE. I appreciate that and I appreciate the opportunity to appear in a little different role than I have in the past.

Mr. Chief Counsel, MBA appreciates the opportunity to testify on the administration's proposed fiscal year 1989 budget for the VA Home Loan Program and on S. 2049.

Before offering our comments on these issues, we would like to thank you for the swift legislative action the committee took to reinstate the fixed maximum guaranty amount that corrects the partial entitlement problem created by the Home Loan Program that was passed at the end of last year.

Mr. Chief Counsel, the administration has made several proposals in its fiscal year 1989 budget for the VA that the MBA opposes.

First, beginning in the second half of fiscal year 1988, the VA would sell loans without recourse from its portfolio, so that by the end of fiscal year 1989 it would have sold $860 million of its loan assets.

MBA continues, as it has in the past, to oppose the sales of loans without recourse. The loans would be sold at distressed prices and bring in little revenue compared with the interest income from the loans that would be generated over the long term. This proposal undermines the financial soundness of the Loan Guaranty Revolving Fund and eventually could threaten the entire program.

Also, the administration's budget as part of the credit reform proposal requests an appropriation of more than a million dollars in fiscal year 1989 to reflect acclaimed grant equivalent subsidies for the "favorable financial terms associated with Federal guarantees of VA home mortgages and vending loans."

MBA opposes these budgetary modifications because they overstate the cost of the program. We urge the committee to oppose any legislation which would require these changes.

MBA would like to offer its comments on S. 2049, which would create an independent commission to study the VA Home Loan Program. MBA strongly believes that the commission's mandate should be to explore what is necessary to strengthen the VA Home Loan Program and to examine in a positive light the entitlement nature of that program.

Representation on the commission should be commensurate with the costs and risks that are increasingly being borne by lenders. VA loans have traditionally been 8 to 12 percent of the mortgage market. However, in recent years, that percentage has declined.

In 1986, VA loans were 6.8 percent of the market. This figure fell to a 5.2 percent in the first three quarters of fiscal year 1987. This trend should be particularly troublesome to this committee in light of the fact that, for the same period, FHA's market share has increased from the traditional 10 percent range in 1986 to approximately 20 percent in 1987.

MBA believes that this loss in market share is attributable in great measure to the inability of lenders to assume further risk in conjunction with the program. Mortgage lenders do not have the financial capacity to become coinsurers with the Government.

Thus, the ultimate loser in this instance is the veteran homebuyer.

The commission proposed in S. 2049 would be an opportunity to explore these issues as well as many other problems facing the program.

Mr Chief Counsel, that concludes my testimony. I will be happy to answer any questions you might have.

Mr. STEINBERG. Thank you very much, Bob, and again thank you, too for summarizing.

[The prepared statement of Mr. O'Toole appears on p. 330.]

Mr. STEINBERG. I want to note that Senator Murkowski is on his way, and also that the committee very much appreciates the thoroughness and thoughtfulness of your testimony and your getting it to us well in advance of the hearing, and your organizations' general support for the provisions in S. 2049 and, of course, for the establishment of the commission.

Although I don't believe that the homebuilders' testimony specifically addresses that point, I surmise from your oral testimony, Ms. Wiseman, that you are generally supportive of the idea of the commission with the comments that you have made with regard to its composition.

Ms. WISEMAN. Yes, we certainly are.

Mr. STEINBERG. With respect to the commission, you would be supportive of its establishment?

Ms. WISEMAN. Definitely. Totally supportive.

Mr. STEINBERG. Thank you.

Ms. WISEMAN. We certainly would want to participate.

Mr. STEINBERG. You heard the testimony this morning with respect to the Administration's proposed cut of the 75 FTE in the Loan Guaranty Service in regional offices around the country

Would you give us your view on what impact you believe that kind of cut would have on the quality and timeliness of loan guaranty services and ultimately on program costs for the Loan Guaranty Service? Perhaps, Bob you would like to start on that?

Mr. O'TOOLE. I guess it would be hard to justify any decrease in the FTE when a number of offices are unable to meet their own requirements for it normal processing, whether it is appraisal processing or loan application processing.

The biggest problem we have is in those areas that are undergoing a large number of foreclosures. For example, in the Houston office, it takes over 37 days for the VA to pay a claim after they have received ownership of the property. In the Denver office, it takes over 65 days to do the same thing.

So, obviously, there are manpower problems and a continued reduction in FTE wouldn't help.

Mr. STEINBERG. Might it exacerbate it?

Mr. O'TOOLE. Absolutely.

Mr. STEINBERG. Ms. Wiseman, would you like to comment on that?

Ms. WISEMAN. I would agree with exactly what Bob said. It certainly wouldn't help; it could only hurt.

Mr. STEINBERG. Jennie?

Ms. STABILE. The same. Ditto. All the way.

Mr. STEINBERG. Bob, this question is addressed to you, but either of the panelists are welcome to comment if they wish. According to a February 10 article in The Wall Street Journal, a significant drop in mortgage volume is expected in 1988; and consequently, as many as 500 lenders—the Journal predicts—7 percent of the mortgage banking industry, is expected to disappear, through mergers, business failures, and the like.

Do you believe that the Journal's prediction is generally accurate? And if so, what impact would you anticipate that such a decline would have on the VA Home Loan Program?

Mr. **O'Toole**. I think we can anticipate that 1988 is going to see a consolidation of a large number of mortgage banking operations for a variety of reasons, some of that having to do with the decline in the volume of home loans that will be made in 1988 compared with 1986 and 1987.

But if interest rates continue at the levels they are now, then that prediction might not be as pessimistic as it was at that time. We have certainly seen a pickup in fixed rate activity in the last 3 or 4 weeks.

But there are consolidations. There is concern about bottom lines. A large number of small banking firms are being purchased by thrifts and other fairly large firms, and more so than at any other time, they are looking at what the bottom lines are, what the profit and loss statements look like.

And if they look at the VA Home Loan Program as a high risk program, is it costing them a lot of money because of the continued increase in cases where the VA just pays the claim and does not acquire the property the inclination is going to be not to make VA loans in the numbers that they have in the past.

Mr. **Steinberg**. Thank you. Would either of the other panelists like to comment on that?

Ms. **Stabile**. I might like to comment on that, Jon. We at the National Association of Realtors are approaching the VA program in a number of areas—in a number of ways—and one is through education, education to our members on how to sell VA properties and/or also how to sell inventory properties by VA.

Also included in that is Farmers Home Loan, which we hope to have an educational booklet out on that. And we firmly believe that the more VA loans that are originated—his is aside from the inventory properties—the more moneys that will go into the revolving fund.

And we feel that if we perhaps give credit for continued education, that more Realtors will get involved in selling veterans' loans, which obviously will increase the income for the fund.

That is one area that we feel would help.

Mr. **Steinberg**. Thank you. With our former chairman's forebearance for a moment, I will continue for a second.

Senator **Murkowski**. Please proceed.

Mr. **Steinberg**. Thank you. Jennie, the VA's budget this year, for 1989, includes $4 million for the first year of a 2-year pilot program to evaluate the feasibility and the cost effectiveness of contracting out the acquisition management, and resale of a portion of the VA's property inventory.

At last year's hearing, you will recall, and we recall, that you testified that such a program wasn't necessary because the Realtors already were working with the VA offices to improve property disposition, and we are aware of the efforts. And we would particularly like to applaud the efforts that you have made in California to which you personally have devoted a great deal of time and personal resources; and we are very appreciative of that.

Even though that is a relatively new program, it has already begun to show impressive results—at least in those areas where no local program has been instituted, do you believe that the kind of program the VA is proposing as a pilot would be a useful way of attempting to reduce the size and cost of the VA's inventory of foreclosed properties?

Ms. **STABILE**. Oh, I think anything would be a help. As to where we are at this point in time, Jon, may I share a little story with you very quickly?

We just visited Denver about 2 weeks ago. That was a demonstration site, one of nine that we have done over the past 2 years. And while we were there and about an hour and a half into the program, one of the representatives from the Veterans 'Administration told us: Just a moment. We don't have a problem with receiving offers on these inventory properties. What we don't have is enough personnel to process the offers. I was astounded.

We were trying to find ways that we could help get these properties sold, and that isn't the problem in that case; it is personnel, again, as we are finding in going throughout the country. We have been coast to coast and north and south, and we are finding this is a problem.

I can't imagine that we shouldn't be able to take a one-time cost for a computer with a modem to allow a bulletin board; you have many Realtors across the country no who have terminals in their offices which could simply call in to obtain a status. There are all kinds of programs that you can put on that that would relieve man-hours and possibly be able to work with the same number of employees that you now have.

You are talking about a one-time cost that could do so much more for this whole program. You are surprised as I was when I found that out, and that wasn't the first time we heard that.

This is the case throughout the country.

Mr. **STEINBERG**. We will ask Mr. Vogel to comment on that specific comment for the record.

[Subsequently, the Veterans' Administration furnished the following information:]

The Department of Veterans' Benefits is taking aggressive action to meet the problems Denver has been facing in disposition of its acquired properties. $35,000 has been provided for the purchase and installation of an IBM LAN (Local Area Network) to automate property inventory control and voucher processing. Local real estate brokers are now able to access current listing information through their own office computers even at night and on weekends. In addition, Denver has received authorization and is in the process of hiring 10 additional staff for its Property Management section. We expect these steps to help VA effectively market the large number of acquired properties in that area.

Mr. **STEINBERG**. Let me just conclude briefly by asking you—and I know that Senator Murkowski and Tony are very interested in this issue as well—whether any of you see new regional trends developing that, as to the current Houston type situation, show any signs of improvement; and on the other side of that coin, do we see future Houstons developing? Bob, do you want to start off with that?

Mr. O'TOOLE. As far as Houston is concerned, if you talk to the people in Houston, they think that the serious decline in real estate values has bottomed out. And we hear the same thing in the Dallas area.

Hopefully, that is the case because the severe foreclosure problem—the main contributing factor is the decline of property values. We have not seen that in other places.

We see areas that had some difficulty a few years ago—Illinois and Ohio and Western Pennsylvania—their real estate values are holding up; and we don't see a Houston happening in other places.

Mr. STEINBERG. Shirley, do you have any comments?

Ms. WISEMAN. Certainly, there are some soft market areas across the country, but nothing of the size and proportion of Houston or Dallas.

And, we feel that each area should be addressed in a different manner. They have different problems, and there are new and creative and innovative ways to sell property, rather than dumping them on the market.

When Bob and I sat in those chairs over at the department—at VA and I at FHA—we had a running battle on the sale of properties. You can be creative.

Mr. STEINBERG. We are aware of that running battle between agencies of the Government. Indeed, Tony and I, and our counterparts on the Housing Subcommittee of the Banking Committee recently, in this room in late January, convened a meeting of VA, FHA, GinnieMae, FannieMae, FDIC, and a number of others to talk about this sort of competition and the need for coordination.

Indeed we are pursuing some very detailed questions to each of those agencies in that regard. Jennie, did you have anything you wanted to add?

Ms. STABILE. Just briefly. I think that we probably have seen the bottom. We don't notice any new areas where this is happening, and I think we all know this has been happening in the energy producing States; but from what I understand—and I have been looking at Houston because we are planning on a visit there—a demonstration site visit there—we are finding that the State is trying to diversify and hopefully into other industries, not just the energy field; and we are finding out that they are being quite successful.

And maybe we are looking at an upward trend of maybe the next 3 to 4 to 5 years—hopefully.

Mr. STEINBERG. We all would welcome such a trend certainly. Tony, let me just note before yielding to you—and I will be yielding entirely at that point—that that concludes the questions that Senator Cranston had for you. We will include in the record, just prior to my last comment, the material pertaining to that January meeting that I made reference to with the committee staff of this committee and of the Housing Subcommittee on the Banking Committee, with those various agencies, a letter of invitation and a follow-up letter that is going forward and any responses that we get. So, that information will all be available.

[The material pertaining to the January meeting appears on p. 342.]

Mr. STEINBERG. I want to note that Senator Simpson has questions for the VA for the record that he will be submitting. We have also noted that we are having questions from Senator Murkowski, Senator Cranston, and Senator Matsunaga.

And finally I want to turn the Chair back where it rightfully belongs, to our former chairman and our acting chairman this morning, at whose request the final panel is appearing.

Senator **Murkowski**. Thank you, Jon. Tony, please proceed.

Mr. **Principi**. Thank you. I just have a few very brief observations. First, I would like to thank you for providing us—those of us on the staff—with your insights into the concerns you have with regard to the VA Home Loan Program and recent legislation enacted into law.

I can assure you that when Jon and I advised the members, we carefully considered the reservations that you have. Although we don't always agree, I believe and I think Jon would agree, I think we have a very good relationship with your Washington staffs.

Ms. Stabile, you raised a very important issue, one that we are tracking carefully: the changes that were made on the assumability of VA home loans and what impact they would have on the alienability of those properties, especially in depressed areas where veterans and active duty service people are attempting to sell their homes.

However, and unfortunately there is another side to that issue. On December 21, to give you just one example—and hopefully, it is the exception and not the rule—a young service-connected disabled veteran wrote to Senator Murkowski. She was a service-connected disabled veteran; her husband was an Air Force sergeant. They moved up to Ellendorf Air Force Base in Alaska.

They sold their home, which they had purchased with a VA home loan. The loan was freely assumed, no credit check. After they arrived in Alaska, unbeknownst to them, the house went into foreclosure. They did not realize that they would still be liable if they sold their home by means of an assumption.

And now her service-connected disability compensation check, which they live on, is being garnished by the Government to pay back the $27,500 debt that she owes to the Government.

Appealing to us in a very emotional letter, she asked: Can you do something to protect my check?

I think that is the flip side. And how do we protect those individuals? Hopefully, new legislation will do so without a too high a cost on the alienability, but we have to look at that very carefully to balance both concerns.

Bob, I have read your testimony very carefully. I can appreciate the concerns of the mortgage bankers I am not a banker. My ranking minority member is, and he may want to comment.

But there are certain aspects of your statement which are troubling, not only from the bankers' perspective, but from the program's perspective. You seem to imply that lenders are subsidizing this program.

Well, you know, you don't have to be a banker. Everyone wants to minimize risk, but it seems to me that it is the existence of risk that makes commercial lending both possible and economically feasible.

And whereas the Veterans' Administration and the veteran rely on your professional judgment as the mortgage bankers, I don't believe that we can totally eliminate risk. I think there has to be some risk in this program, and that risk has to be shared by the mortgage bankers, as well as the Veterans' Administration.

And in that line, you talk about the new formula, the sliding scale, regarding the guaranty. There perhaps is an implication there that, if bankers have to assume some risk, then they are not going to participate in this program.

It is difficult for me to understand and appreciate this "new" risk. In the context, say, of a $50,000 loan, if a nonveteran comes in and says I will put $20,000 on the table, or $10,000 on the table—which is 20 percent—the lender would go ahead and make that loan without any problem.

But here the Veterans' Administration guarantees $22,500—45 percent of that loan—and you imply that, because it is only 45 percent, no longer $27,500, bankers are no longer going to participate in the program.

Certainly, we would all agree that a no downpayment loan is riskier than having some equity in the property—20 percent; but here we have attempted to protect the mortgage bankers by giving them 45 percent of the value of the loan—$22,500 guaranty on that $50,000 property—and you are telling us that mortgage bankers won't participate, yet they would go ahead and make a loan with a 20-percent downpayment, $10,000.

I don't know how much more we could do, to be quite honest with you, in that regard. And I only raise that because I am concerned about the thought that is being projected there by the mortgage bankers that the $36,000 down to $22,500 is not sufficient. Perhaps you would like to comment on that issue?

Mr. O'Toole. First of all, I think if you read the testimony as it is written, it says very clearly that the coverage that the lender has under the new legislation is not the same as it was under the prior legislation and the lender would have to look at that as they originate loans in the lower price ranges because they would have coverage that is below what it was previously.

If a lender looks at that coverage and decides to make a loan, that is a business decision that they would make. All we say in the testimony, Mr. Principi, is that that is something that the committee should be aware of. We pointed it out when the legislation was proposed.

As you review the laws and see how it works, we think you should consider that to see if it has an effect on those veterans who are on the lower income scale and are purchasing houses at the low end.

Mr. Principi. Thank you very much. Thank you, Senator.

OPENING STATEMENT OF SENATOR MURKOWSKI

Senator Murkowski. Thank you, gentlemen. I am not going to ask any questions of this panel, but I would very much appreciate it if you could extend your stay with us for the next witnesses because the panel that we are bringing up consists of those who feel that they have been to some degree victimized by the system.

And the system, of course, is broad and includes all of us. What I would hope would come from the witnesses would be a opportunity to specifically identify inconsistencies and areas that obviously have to be addressed.

I have had some experience in mortgage banking and understand the merits of the VA program, which was initiated to put our Nation's veterans within the reach of acquiring homes.

And that process has worked very well, but when times get tough, people have to initiate various innovative procedures; and they do that basically to stay alive in a declining market.

I think it is fair to say, in reviewing certain case histories that, without exception, the VA and the taxpayer ultimately take it pretty much on the chin. That is not to say that there aren't others involved, but hindsight is cheap when you go back and examine a case history as to where the mistakes were made.

In any event, the purpose of this hearing is to be constructive, to try and recognize that we all have an obligation to tighten up on those areas that need to be tightened up on; and we need the input of people who work with the system, who make their living as a consequence of their expertise in the system, making constructive recommendations.

And that was obviously the purpose of your being here today. So, I thank you for your constructive testimony, and I request that you bear with us for a few minutes as well. I wish you a good day.

While we are calling up our panel, consisting of Samuel J. Walsh and Captain Daryl Magid, and Captain William Bowler, I will attempt to keep you—I won't say entertained—but to address the specific area that I intend to cover in the balance of what is now this afternoon's hearing.

In the fiscal years 1988 and 1989, we have figures that indicate over $1.5 billion will be needed to keep the Loan Guaranty Program in operation; and this is in addition to the money the program receives, first of all, from the 1 percent funding fee charged to veterans, which has been under a great deal of scrutiny as to its adequacy or inadequacy; and there have been attempts to increase that fee by the administration because obviously that money has to be made up, if it is not coming from the fees.

And there have been those who are in the mortgage business and in the real estate business and other areas who have opposed the increase of fees for obvious reasons.

Further funding comes from the resale of foreclosed property in the VA inventory and, of course, ultimately the sale of loans, assuming there is a market for those loans.

I want to make it very clear that this money is not for the administration of the program. Funds to staff and run the program are funded from a separate account. This money just covers the losses, and this is the issue that we have got to resolve.

And it is a collective obligation of this committee in its oversight capacity and a direct obligation of the administration of the VA to address that issue. Over $1.5 billion: that is a substantial drain on the Treasury, and it certainly reinforces the deficit which causes the whole complex to get more contracted, if you will.

You know, as we reflect on our scarcity of Federal resources, those of us responsible for the obligation we have to our veterans are faced with the reality that, rather than spending this $1 billion or so—nearly a billion and a half—for care for the aging veterans' for AIDS treatment, for vocational rehabilitation, for catastrophic care, for disabled veterans, and for other needed changes in the veterans' programs, we are instead putting it in to make up for the loss of the VA housing program.

I fully recognize the Veterans' Administration cannot alone be held responsible by any means because there are issues such as downturns in the economy. There is loss of jobs, and there are other factors that lead to the foreclosure problems.

But I don't subscribe to the theory that the problems are just localized and that they will only be solved when the economy turns around. Waiting for the price of oil to increase is just not a realistic solution.

There will always be economic problems in the country. There are always going to be those thrown out of employment in various areas. But the Home Loan Program is unlike other VA programs.

By its very nature, the VA Home Loan Program really tries to operate as a business. That is the way it is set up, and it should be run more like a business. If we continue to sustain tremendous losses, the program may eventually collapse.

The mindset that suggests that Congress will appropriate whatever funds are needed for whatever period of time is neither realistic nor appropriate. Those who administer the program must treat such losses as if they were occurring in their own area of responsibility—like a business—and make the necessary changes to rectify leaks in the system.

I believe that you, the VA, have the management flexibility to do a good deal of that. For example, the Texas situation has certainly been highlighted. But it deserves to be highlighted because we have an inventory of about 8,000 homes, many of which you cannot sell unless you dump them at an auction, an action that would further depress the real estate market.

Yet, we continue to acquire 75 percent of the properties in foreclosure in the State of Texas alone. Under the law, the VA determines the fair market value of the property, and no one else, according to the information I have—and if that information is wrong, I hope that it will be brought out today.

The fact that the VA has 8,000 homes in the inventory in the Houston region alone indicates to me, and it is pretty obvious, that we have a lot more sellers than buyers, more, indeed than the market seems able to accommodate.

And the liquidation values realistically have been inflated; and that was a mistake to start out with. If you can't resell the homes, the condos, one asks: Why do you take them back from the lenders? It is not the non-bid formula. The VA determines fair market values of the property in question. You plug in the numbers.

Members of my staff visited Houston and looked at some of these homes. I would like to show you what they found. Some of the homes are stripped bare. These are blown-up pictures of some of the homes. Boarded up, not maintained. [See photograph No. 1 on p. 147.] I wonder if one of the staff could hold these up behind me?

Appliances gone; boarded up patio doors. [See photograph No. 2 on p. 148.] You know you hear about the kitchen sink missing? Well, they have even taken the kitchen sink and the top of the toilet. [See photograph No. 3 on p. 149.]

Now, here are some other homes. Appliances stripped; holes in the walls; ceiling crumbling. [See photograph No. 4 on p. 150.]

You know, these are just the harsh realities of what is available for sale in the Houston market. 8,000 homes. Kitchens stripped of appliances; they even got the cover plates from the electric outlets. Wallboard hanging down, falling from the walls. Air conditioner gone from the outside. This is the back end. [See photograph No. 5 on p. 151.]

Circuit breakers; electric wiring appears to be stripped from this home. [See photograph No. 6 on p. 152.]

Here is a nice VA home; no "For Sale" signs. [See photograph No. 7 on p. 153.] Now, how can a potential buyer know that these homes are available?

Now, I can understand that we can go out and set up examples, but these are typical examples. There are just far too many of these. When you see these homes in the subdivisions with no "For Sale" signs, and you find the VA is paying a management fee to a broker—$20.00 a month at least—to manage these homes, you wonder what kind of management we are getting for our money.

Based upon these photos, it would appear that the VA is getting little in return.

Now, the VA also spends money to market its homes. Well, let me tell you what happened to on of the staff members of this committee who anonymously called the VA to ask about buying a VA-owned home. Maybe the person who answered wasn't an experienced person in VA policy, but he was told to contact the participating broker.

When the staff member asked how to find a participating broker, he was told to call the brokers listed in the telephone book until he found one that participated in the program. Well, we would hope that there is a different procedure now.

I have never heard of a marketing school that teaches the students to make it difficult for customers to find a contact. If you are in the business of building or selling homes, is that how you would market your properties? I don't think you would.

This morning, we are going to hear from witnesses who will describe a situation that, if true—and we have done an awful lot of homework in this area—if we have all the facts, describes a program that is basically doomed to failure by the way the program is operating, and has no likely achievement of success.

The witnesses will describe a system in which veterans and military families purchase homes with appraised values that did not have any relationship to market value.

We have the appraisals before us. We are going to discuss actual situations. The witnesses will provide us an insight into how grossly exaggerated appraisals lead to the collapse and financial ruin of not only the mortgage companies involved, but the builders, and most importantly the individual veteran and the active duty service members and their families who go into these areas, under the belief that these appraisals represent market values and under the belief that there is not some kind of shifting around in order to maintain these values.

And this is an obligation of appraisers who are approved by the VA, and the potential exposure is a very, very serious matter; and it is appropriate that this committee address in oversight this particular area that has apparently turned into a bit of a sieve.

We must meet the obligation to ensure that the veterans who use the program are its beneficiaries. Unfortunately, this morning I think we are going to hear from some of its victims. The hour is late, and we have a lot ahead; so I want to proceed with our witnesses.

Captain William Bowler, you are a medical specialist in the U.S. Army?

Captain BOWLER. Yes, sir.

Senator MURKOWSKI. Would you proceed with your testimony? And then, we will call on the other witnesses.

[The prepared statement of Senator Murkowski appears on p. 136.]

STATEMENT OF CAPT. WILLIAM H. BOWLER, MEDICAL SPECIALIST, U.S. ARMY, FORT GORDON, GA

Captain BOWLER. Thank you, sir. I have been told my testimony is in writing and will be in the record.

Senator MURKOWSKI. It is entered in the record as of right now.

[The prepared statement of Captain Bowler appears on p. 510.]

Captain BOWLER. And I would like to simply summarize it briefly.

Senator MURKOWSKI. Please proceed.

Captain BOWLER. Also knowing that there are hundreds, if not thousands, of other active duty military and veterans who were caught in the same situation.

In November of 1984, I was transferred to San Antonio. I sought out a house to rent and, with the help of a realtor, was eventually brought to the model home of a Ray Ellison subdivision.

In talking to the salesman, I explained to him that I intended to rent a house and asked him if there were any rental homes in the subdivision. He said point blank there were none.

Senator MURKOWSKI. There were no rentals in the subdivision?

Captain BOWLER. He said there were no rental homes in the subdivision. Point blank.

Senator MURKOWSKI. How many homes in the subdivision total?

Captain BOWLER. I am not sure of that number, sir.

Senator MURKOWSKI. Lots or a few?

Captain BOWLER. There were several thousand.

Senator MURKOWSKI. Fine.

Captain BOWLER. We were eventually persuaded to purchase a home for several reasons. Among the reasoning was that the VA could guarantee the value of the home to be worth at least as much as the purchase price. After moving into the home, we noticed numerous construction defects; and the repairs that were made were cosmetic.

Gradually, however, we became aware of a large number of EPIC rental properties. We realized we had been lied to by the agent. Some of these properties were vacant and would have been perfectly suitable for our needs.

We engaged a lawyer, and a discovery process was begun. We found in the discovery process that there was an active agreement between Ray Ellison, the builder—Ray Ellison, Inc., the builder—and EPIC to limit the number of signs on any given street to one, in front of one home, saying that it was for rent.

After numerous requests, we finally received a copy of our appraisal and noticed that there were several details that were inconsistent or wrong. One of the comparable homes on our appraisal was an EPIC rental property. The discovery process revealed that sizable rebates were given by the builder back to EPIC on the purchase of each and every home. These rebates were up to 25 percent of the purchase price, and on a $60,000 figure, a $15,000 rebate would equate to about 33 percent of the total value.

The percentage of rentals listed on our appraisal was eight. The discovery process revealed that between 40 and 60 percent of the homes in the Sunrise Subdivision were EPIC rental properties This was at a time when EPIC was solvent.

Later, when it went bankrupt and the discovery process and legal process were concluded, it decreased to a total of about 19.9 percent. That was due to the builder still building homes and selling them to individuals.

The appraisal also stated that the typical rent was $420 to $625. The average EPIC home rented for $350 to $375. You could have rented a home like mine for $375.

We also noted that the original amount on the appraisal form was changed, and increased to a higher value, about $1,400 higher. As subdivision representatives, we saw many appraisals from other people; and we noted these changes on most, if not all, the other appraisals.

We tried many ways to resolve the rising problems by contacting the builder numerous times, by telephone and letter, by contacting the local and regional offices of the VA, and the Veterans' Administration here in Washington, D.C. We were referred each time back to the local office.

During the discovery process, we also found that the builder owned and controlled all facets of the sales transaction. Besides the sales, he owned the title company, the mortgage company, the escrow closing agent, the hazard insurance company; and he pretty well controlled the appraisal process.

In July of 1986——

Senator MURKOWSKI. Excuse me. What makes you think he controlled the appraisal process?

Captain BOWLER. The VA appraisers—or the VA office in San Antonio did not have its own appraisers; and so they hired individual appraisers. Several of the appraisal forms that we saw had the same name on the appraisal forms.

Senator MURKOWSKI. What makes you draw the conclusion that that was necessarily the builder or the developer?

Captain BOWLER. I am uncertain of that, sir. My wife was the major subdivision representative, as I was in school at the time; and she would have a better answer to that. Unfortunately, she is not able to be here.

Senator MURKOWSKI. The record will remain open and we would welcome any reference to the allegation that this appraiser was somehow representing the self-interests of the builder or the developer or somebody that had an interest in the home, as opposed to an arm's-length position for the appraiser.

So, in your testimony if you have any reference to that relatively narrow area, I would appreciate any remarks you or other witnesses would care to make at the time of your testimony. Please proceed, Captain.

Captain **Bowler**. Thank you, sir. After leaving, we were unable to rent our home for several months; and finally, when we were able to rent our home, it was for an amount significantly less than what our payment was. The renter could pretty well dictate to us what he was willing to pay because, otherwise, he could simply go to Worldwide Realty, which was renting homes—EPIC homes—that existed within our subdivision.

We did have two offers actually by one man to sell the house, but he would not assume liability. He would assume only the mortgage, and we would have to pay $4,000 to $5,000 to him. He refused to have a credit check and refused to furnish us with any credit recommendations on credit information.

At the present time our home is about to be foreclosed on. After the renter left, we were unable to attract another renter. We saw an advertisement by the Veterans' Administration for other homes that had been foreclosed on, not only in that subdivision but other subdivisions. And their sale price was approximately 50 percent of what the sale price was.

In our subdivision the houses were being sold for prices listing from about $19,900 to about $34,000.

Senator **Murkowski**. And you paid $60,000?

Captain **Bowler**. $60,000; yes, sir. And the amount due on the mortgage is about $62,000.

Senator **Murkowski**. How much down payment did you make?

Captain **Bowler**. None, sir.

Senator **Murkowski**. None?

Captain **Bowler**. None.

Our home was in the mid to lower end of the price range, and we would expect it to reappraise for about $32,000, hopefully.

That would still leave us with a deficient balance of about $30,000, for which the VA will turn to us, and the only way we can satisfy it is by wage garnishment, garnishment of tax returns, or bankruptcy.

Senator **Murkowski**. Thank you for that testimony, Captain. And I want to make sure the record reflects the status of that home. Currently it is rented?

Captain **Bowler**. No, sir, it is not. We have been unable to attract a renter, even though a realty company, Century 21, has been trying to attract a renter.

Senator **Murkowski**. And how long has it been since you have lived in that home?

Captain **Bowler**. We moved from that home in July of 1986.

Senator **Murkowski**. And the current payments to the VA on that home are how much?

Captain **Bowler**. They are about $675 or so, sir. $679, I believe.

Senator **Murkowski**. And your duty post now is?

Captain **Bowler**. Fort Gordon, Georgia.

Senator **Murkowski**. And when the military transfers you and you have a home, you are on your own. There is no provision to take you out of that home or guarantee that you don't lose any money on that home.

Captain **Bowler**. That's right, sir.

Senator **Murkowski**. So it is kind of a "buyer beware."

Captain **Bowler**. Exactly, sir.

Senator **Murkowski**. And have you been trying to make payments, or have you made payments, or where do you stand with that obligation since there is no rental coming in?

Captain **Bowler**. We had tried to make payments and have exhausted our savings and now there is just no more money to make payments with. At least we had about $500 of rental income coming in.

Senator **Murkowski**. What would it cost you to rent or buy wherever you are now?

Captain **Bowler**. It cost me $495.

Senator **Murkowski**. And you are renting?

Captain **Bowler**. Yes, sir.

Senator **Murkowski**. And then you have a wife?

Captain **Bowler**. Yes, sir, and three children.

Senator **Murkowski**. And three children.

What does the Veterans' Administration tell you they are going to do, because I gather you are delinquent in your payments?

Captain **Bowler**. Yes, sir. We received a letter about a week ago. The letter listed three alternatives. One was to find a buyer for the home. The second was to allow it to foreclose, and then I would be assessed with a deficient balance. The third was to allow it to foreclose and then seek a waiver of the deficient balance.

Senator **Murkowski**. What is the justification for a waiver?

Captain **Bowler**. I am not sure, sir. My only guess would be probably some financial hardship.

Senator **Murkowski**. Well you are already having a financial hardship.

Captain **Bowler**. Yes, sir,

Senator **Murkowski**. So, theoretically, a waiver would address easing that. And it would be interesting. Perhaps somebody else can tell us what that waiver means. Does it absolve you of the financial obligation? And if so, to what extent?

Captain **Bowler**. As I understand it, sir, the waiver would remove my obligation for the deficient balance. That is as I understand it.

Captain **Magid**. Sir, if I may respond. An alternative would be that the Veterans' Administration may provide some minimal relief in that they may not waive any amount of the principal balance but that they may provide an extended amortization schedule for Captain Bowler.

Senator **Murkowski**. All right.

And your balance owed is somewhere in the area of $60-some odd thousand.

Captain **Bowler**. $62,000, yes, sir.

Senator **Murkowski**. When was the last time you made any payments on the home?

Captain BOWLER. Sir, I think it was September or October. October, I think, sir.

Senator MURKOWSKI. Of last year?

Captain BOWLER. Yes, sir.

Senator MURKOWSKI. At a time when you are not living in the home.

Captain BOWLER. Yes, sir. We were not living at home.

Senator MURKOWSKI. So you were attempting to keep up your obligation at a time when you were not living at home?

Captain BOWLER. Yes, Sir.

Senator MURKOWSKI. All right. Captain, do you want to proceed? Captain Daryl Magid.

STATEMENT OF CAPT. DARYL B. MAGID, ARMY JUDGE ADVOCATE GENERAL'S CORPS, FORT GORDON, GA

Captain MAGID. Yes, sir. Good morning.

Before I begin with my statement I would like to respond to one question you raised to Captain Bowler regarding his allegation of undue influence in the appraisal process. We have presented an appraisal which indicates that the appraiser in question relied on data provided by the builder in question, Ray Ellison Homes, Inc., and that was his exclusive source of that information. So we offer that to you as some suggestion of Captain Bowler's allegation.

[The appraisal appears on p. 514.]

Senator MURKOWSKI. Well we are going to explore this process, but just because the appraiser relied on information still the appraisal is anticipated to be an independent and objective process. And if it is not, then we had better take a look at the system. Please proceed, Captain Magid.

Captain MAGID. I am presently assigned to the Legal Assistance Office, Fort Gordon, Georgia. I am here pursuant to your request. I am acting in my representational capacity as an attorney for my client and also to present evidence that I have discovered during the course of this representation.

Testimony that I present today represents my considered professional opinions as a legal assistance attorney engaged in the representation of my client, but should not be construed to represent the official views of the Department of the Army.

I feel morally, ethically and legally compelled to provide this testimony. The Code of Ethics for Government Service mandates the exposure of corruption wherever discovered. I have discovered evidence of appraisal abuse that is far beyond mere incompetence.

VA loans have accounted for about 50 percent of all new home sales, in recent years in the San Antonio area, as compared to about 10 percent nationwide. Of the thousands of active duty service members who have suffered devastating financial hardship as a result of the appraisal abuses in the San Antonio area, not one has received any relief.

Service members receive permanent change of station orders every few years. Many, if not most, of the victims have left the area.

My investigation has revealed that all the statements made here today by Captain Bowler are factual and verifiable. My investigation has revealed the following facts regarding the relationship between EPIC-Ray Ellison Homes, Inc. in the San Antonio housing market.

One hundred and eight homes purchased by EPIC from Ray Ellison Homes, Inc. in October of 1984 represent over 42 percent of the 252 homes sold by Ellison that month. In 1985, EPIC owned approximately 30,000 residences. Half of the residences were in Texas, with over 3,000 in San Antonio. Most EPIC homes in San Antonio were purchased from Ray Ellison Homes, Inc. EPIC would buy all the unsold inventory of Ellison Homes on a monthly basis. This relationship has existed for nearly 10 years.

EPIC purchased 598 homes in San Antonio during the first 8 months of 1985. Five hundred and 64 of the 598 homes were purchased from Ellison. This represented 31 percent of total Ellison sales and also represented 13 percent of all home conveyances in the county.

From August of 1984 through July of 1985, Ellison sold 3,200 homes. Eleven hundred and ninety six of the 3,200 homes—over 37 percent—were sold to EPIC. These facts have been presented to show the tremendous leverage EPIC enjoyed over Ellison, and also the tremendous leverage EPIC and Ellison, together, could exercise over the lenders and appraisers desirous of this substantial business.

The tail was truly wagging the dog. EPIC wanted an inflated purchase price on paper to accommodate the investment goals of limited partnership investors seeking two for one writeoffs. EPIC was able to obtain large cash rebates from Ellison based on this relationship. Ellison could afford to do this based on their desire to create artificially high comparable sales. Together with the loan originators and escrow agents that they owned and controlled, they were able to unduly influence the appraisal process so that appraisers totally ignored a documented and well established pattern of practice of paying rebates and creating large concentrations of rental properties.

Most, if not all, the VA guaranteed Ellison sales were supported by VA appraisals that relied on comparables that were either themselves artificially inflated EPIC purchases or comparables that received their original price justification based on this faulty barometer of artificially inflated EPIC purchases. Entire subdivisions containing hundreds or thousands of homes were built and sold to innocent victims based on the fraudulent benchmark established by the initial EPIC transactions.

Examination of numerous appraisals revealed for the limited number of appraisers rendered appraisals on hundreds if not thousands of homes.

In concluding, I would like to outline my opinions as to the type of remedy that should be provided to victims of appraisal fraud.

I urge you most strenuously to compel an investigation into the thousands of fraudalent appraisals discussed here today. The evidence calls for a Department of Justice prosecution against the wrongdoers rather than an attempted recovery of the loan guarantee losses from the innocent victims of the fraud.

Finally, and of most significance to this committee, to the Veterans' Administration and to the VA home buyer, the VA Waiver

Committee should grant full waivers and restoration of eligibility benefits to victims of appraisal fraud if the fraud was aided by the Veterans' Administration or if the Veterans' Administration could have reasonably discovered the fraud. Also, these waivers should be granted en masse to all borrowers found to be victims of the widespread fraud discussed today. It is neither logical or equitable to force an innocent victim of this fraud to suffer through a foreclosure action when the borrower can convey a deed in lieu of foreclosure.

Furthermore, all such waivers granted due to appraisal fraud should be referred to the Department of Justice for prosecution.

Thank you very much for the opportunity to present this testimony. We welcome your questions.

Senator MURKOWSKI. Thank you.

[The prepared statement of Captain Magid appears on p. 515.]

Senator MURKOWSKI. I am going to give you a few questions now and then call on you a little later. I want to take the next witness, but while we do, I would like you to reflect on walking me through a case where you feel that your client's developer participated in a fraudulent scheme and whether it is separate from the allegation that there was a fraudulent appraisal, so I can comprehend specifically that we have the possibility of fraudulent appraisals taking place in areas, such as Texas. And also a reference to where this would have likely washed out had the economy of the Houston area maintained itself at the level that everybody would have liked to have seen.

Mr. Walsh, you are a retired Sergeant Major. I gather you were living in the San Antonio area and you have joined the Washington staff of The American Legion. And I want to welcome you back to Washington. We look forward to working with you on veterans' matters.

I gather you are speaking for yourself in this case and not The American Legion.

Mr. WALSH. That is correct, Senator.

Senator MURKOWSKI. Please proceed.

STATEMENT OF SAMUEL J. WALSH, U.S. ARMY (RET.)

Mr. WALSH. Thank you.

I do not have a prepared statement. I put some notes together over the last 2 days I would like to talk to.

I am on the opposite end of the situation that Captain Bowler was in, in that I moved to San Antonio 3 years ago, January 1985, and purchased a home that had a previous owner. The home was built by a major developer—the major developer—had an appraisal on the home, bought it, and thought I had a great deal. As a matter of fact, I had such a great deal that the previous owner lost $15,000 on it. So I figured, hell, he has already taken a discount. I was going to make out like a bandit.

Subsequently I discovered that the homes surrounding me were EPIC properties as well and I would have a very difficult time reselling the house. But we were comfortable there.

Senator MURKOWSKI. Who did you buy the house from?

Mr. WALSH. Pardon?

Senator **Murkowski**. Who did you buy the house from?

Mr. **Walsh**. I bought it from an Army colonel.

Senator **Murkowski**. That was in the house?

Mr. **Walsh**. Yes, sir.

Senator **Murkowski**. All right.

And he sold it to you for $15,000 less than he paid for it?

Mr. **Walsh**. Well he had to come up with $15,000 cash for closing. He had to come up with a lot more at closing than I did.

Senator **Murkowski**. Yes. But the question is, he paid *X* for it and you paid *X* for it.

Mr. **Walsh**. That is correct.

Senator **Murkowski**. And those two *X*'s are what? What did he pay for it?

Mr. **Walsh**. All right. He paid $112,500.

Senator **Murkowski**. And what did you pay for it?

Mr. **Walsh**. And I paid $112,500. He had put in $15,000 in improvements that he ate. That is not equity. I mean, that was, in fact, improvements.

Senator **Murkowski**. All right.

Mr. **Walsh**. But in any event——

Senator **Murkowski**. All right. That is fine.

Mr. **Walsh**. All right.

In the next few months as time went by we discovered, of course, that the property surrounding us were EPIC. Those properties became vacant for extended periods of time. We—myself and neighbors—attempted to keep those yards looking good so that we could preserve our own property.

Similarly, about 6 months into our living there an Army captain lived two houses down across the street, and he was moving. He put his house up for sale and subsequently moved with a for sale sign. Some time went by and the for sale sign was removed and a sticker was put in the window after the VA foreclosure.

Again, my neighbor and I mowed the lawn on a routine basis—he more routinely than I—but we kept the yard looking presentable to preserve our own neighborhood.

I moved out of there a month ago and that house has been Vacant in excess of 2 years now.

Senator **Murkowski**. What was the sign in the window? What did it say?

Mr. **Walsh**. It was the warning. I am not sure. It is that FBI sticker that is applied on several foreclosed properties. I believe it goes on both FHA and VA. This one I knew was VA because I knew the guy that was living there.

Senator **Murkowski**. And it said something about what?

Mr. **Walsh**. "Property of the Federal Government,"and subject to all kinds of fines if you break in or steal anything, or whatever. But it is kind of hidden back.

Senator **Murkowski**. No for sale sign?

Mr. **Walsh**. No for sale sign. Never has been a for sale sign. When I left there was no for sale sign.

Senator **Murkowski**. Who do you figure really owned that home? The VA?

Mr. **Walsh**. I assumed the VA owned the home.

Senator **Murkowski**. Go ahead.

Mr. WALSH. Let me back up a little bit more. Again, I want to go back to about 2 years ago when the EPIC issue hit the front pages with the demise of a savings and loan in Maryland.

There were two homes on my street that were EPIC properties that were model homes. Those were empty until the last 6 months when both of those have been sold. Apparently the assets of EPIC are in a bankruptcy court and they are piece mealing out the sales of some of those parcels. And I believe it was Century 21 that handled the sales. And they put signs up, and both of those properties have been sold, which made me feel somewhat more secure in that I had real ownership owners living around me.

Then this past November I got word that my job was being abolished—my entire department was being abolished in San Antonio—so I became much more acquainted with what I was doing. I attempted to put my house up for sale, had a difficult time finding anybody particularly interested in buying it because there were a lot of houses for sale in San Antonio. We did find one agent that seemed eager and willing to sell. He, of course, came by and we had absolutely no interest. He couldn't generate any interest. He put advertising in. And we had discovered at that point that the most I could get for my house was $90,000; that the market conditions would not bear any more than that.

I thereupon attempted to find out how I could cut clean. I didn't want to sting the Government. I didn't want to abandon the house. I didn't want to hurt my credit. I just simply wanted to get out from under this mess as easy as I could.

So, of course, I contacted the regional office. The regional office indicated I should contact the lender. I contacted the lender. The lender told me they didn't much care one way or the other, but that if I was delinquent to be sure to get back in touch with them.

I was explaining that I did not want to get delinquent. I wanted to somehow settle this so I would not hurt my credit.

Senator MURKOWSKI. What did you have in mind?

Mr. WALSH. I had in mind paying $27,500 if that is what it came to to buy out of my guarantee. I knew I was going to get stung eventually.

I subsequently got back to the VA. And what I was trying to do at this stage was to see if I could get an appraisal so I could find out what my exposure was, how much am I going to have to stash aside for a rainy day. I discovered that I cannot get an appraisal until I am delinquent.

Senator MURKOWSKI. You can go out and hire an appraiser and have an appraisal done.

Mr. WALSH. I was willing to do that, but I could not get any commitment or any warranty or anything from anybody that that appraisal would have any validity when the home went into default.

About this time, coincidentally, I found somebody who was interested in assuming my loan. The loan has been assumed. All I have done at this juncture—and I am fully cognizant of it—is that I have deferred my problem. I may come out of this thing clean or I may get hit for $27,500. But I am not going to get bit with it this week or next week. It may be next month or 6 months from now.

I have waived the risk and I chose to take that risk.

The situation is, you know, I don't think I am an aberration. I think it is rather common. I think it happens to a lot of people that are trying to be fair by their Government, be fair by the taxpayer, and do what I have to do to come clean.

I could not find anybody particularly interested in listening to me so I took the last route, and that was simply to find somebody to assume the note. That has been done, and I am prepared to pay the difference when and if they call me.

Senator **MURKOWSKI**. The individual who has assumed your mortgage has taken over the mortgage?

Mr. **WALSH**. There has been no credit check.

Senator **MURKOWSKI**. I see.

Mr. **WALSH**. We simply recorded a deed with the county, and notified the mortgage company that this other individual would be making the payments, and have had coupon books prepared by the mortgage company to that effect.

Senator **MURKOWSKI**. So the responsibility is still yours

Mr. **WALSH**. That is correct.

Senator **MURKOWSKI**. And if he defaults, why you are going to be called on. But he took you out of it.

Mr. **WALSH**. That is correct.

Senator **MURKOWSKI**. How much down payment did you put in the $112,000 home?

Mr. **WALSH**. I would want to say maybe $1,200, whatever the smallest amount possible to satisfy. As I recall, the VA was $110,000, so I had to put down 25 percent of the difference.

Senator **MURKOWSKI**. And your other alternative would have been to take the $90,000 that was offered somewhere along the way, but you decided not to do that.

Mr. **WALSH**. That is correct. Because I would have wound up paying more than $27,500 in the final analysis because I would have had the closing cost that I was going to get hung with. But basically the deal was $90,000 and you pay for everything else.

I might also add that my wife was particularly smart. She caught something that I am not sure I would have caught. That was an equity skimming operation. We were approached by a buyer who expressed an interest in assuming our note, and getting us out of there and protecting our interest. She just did not feel particularly comfortable. And she contacted an Army lawyer at Fort Sam Houston who suggested perhaps she contact the State's Attorney's office in San Antonio. She did. The State's Attorney's office set up a meeting for my wife and this buyer representing a group of investors to meet in the State's Attorney's office, whereupon the buyer expressed he did not have an interest in buying the property any more.

Senator **MURKOWSKI**. The buyer being whom?

Mr. **WALSH**. The buyer being an individual representing a group of investors. As I recall, it was from Louisiana. It was an equity skimming.

Senator **MURKOWSKI**. Well, you know, when the economy goes down, buyers go away. And when things pick up, buyers come in.

Mr. **WALSH**. Sure.

Senator MURKOWSKI. It is strictly a matter of return on an investment. And if they see the return is not there, you cannot find them.

Any other comments, Mr. Walsh?

Mr. WALSH. I would like to make kind of a general comment on the appraisal issue. And I have heard, of course, this morning a number of people talking and certainly the situation with Captain Bowler.

The situation—just speaking as an individual—is very, very complex, in that I had an appraisal done on my house, $112,500. The only reason that appraisal is any good is because someone is willing to pay $112,500.

Senator MURKOWSKI. Well, that is a good reason.

Mr. WALSH. But I guess what I am saying is that I was in the lending business for a short time, as I know you were, and when times are hard you want to lend a lot of money fast.

Senator MURKOWSKI. I am not so sure about that, but we have differences of opinion. When the times get tough, I don't think I want to lend anything.

Mr. WALSH. Well there are those that want to lend money, of course, when times are tough so they have to improve their bottom line.

Senator MURKOWSKI. You have to pay it back, though. And if you do not have any cash flow, how are you going to pay it back? If you go into debt or if you lend money, you still have to get it back.

Mr. WALSH. Oh, agreed. And I am certainly not disputing that. I am simply saying there was a willingness certainly in Texas to accept appraisals at face value.

Senator MURKOWSKI. Well, this is an area that I want to get into in the hearing because this is the area that I think that it is appropriate that we focus on.

You, Sir, were fortunate, as opposed to Captain Bowler.

Mr. WALSH. Correct. Well, fortunate for now.

Senator MURKOWSKI. Well, yes. But it is like we are fortunate to be here now and some of us might not be here this afternoon. That is a poor comparison, but it is a reality given the scope of things.

I want to focus in specifically on the area that I outlined. Before I do, I want to ask Mr. Principi if he wants at this time or any other time during the process here to make any reference to some of the research that has been done. It is your call, Mr. Principi.

Mr. PRINCIPI. We do have some information with regard to EPIC. As Captain Magid said, Ray Ellison Builders is a very big developer in Texas. Sixty percent of all his homes are financed by loans guaranteed by the Veterans' Administration.

EPIC, as many of you probably know, was and is a real estate syndication company. In 1982, EPIC purchased Community Savings and Loan in Bethesda, Maryland and operated what would eventually become more than 350 limited partnerships that invested in housing developments, many in Texas.

The plan of the EPIC limited partnerships was essentially to purchase homes in new subdivisions and then rent them at a loss, thus generating tax advantages. The mortgages on these houses, often for more than 100 percent of the purchase price, were then sold.

Partnership fees, rental income, and advances from EPIC were supposed to generate enough income to pay the mortgages. The partnerships expected to sell the houses for a profit when the housing projects were completed, typically 5 years after purchase. That was their game plan.

In September of 1985, the bottom fell out of the EPIC plan, and almost all of the limited partnerships filed for bankruptcy. Community Savings and Loan and EPIC itself were put under the control of the State of Maryland. Nearly half of the 20,000 properties purchased by EPIC were located in Texas. Of those 10,000 Texas properties, more than 3,000 were purchased by Ray Ellison Properties.

Ellison Homes and EPIC began dealing with each other in the late 1970s. By the early 1980s, Ellison would offer most if not all, of its unsold homes to EPIC at the end of every month, EPIC would generally buy all that Ellison would offer

For example, in October of 1984, Ellison sold 252 homes; 108 of those homes—42 percent—were purchased by EPIC.

Now, although the majority of Ellison's homes were sold to persons other than EPIC, sales to EPIC had a very distinctive difference. The EPIC price was as much as 25 percent less than the selling price of the same home to a person financing that home with a VA-guaranteed loan.

For example, on an Ellison house normally listed for sale at $63,000, nearly $6,000 would be paid by Ellison to EPIC as a "service fee." In addition, more than $15,000 would be paid by Ellison to EPIC as a "discount" or a "rebate." In fact, those amounts were paid by Ellison after the sale and not disclosed on the documents filed with city or county officials.

The most important results were that EPIC could borrow based on a price of $63,000, not $42,000, and that official records would reveal a sales price on that property of $63,000, not the actual price of $42,000.

The problem that arose for veterans and service members, such as Captain Bowler, was that appraisals of properties to be sold to non-EPIC purchasers were, in part, based on an inflated sales price from the EPIC sales. As a result, the VA may have received appraisals based on supposedly comparable properties which may have been legitimate on their face, but which may not have represented the fair market value of the property being appraised. That is based upon research of the staff.

Senator, we have a copy of the appraisal on Captain Bowler's home, which indicates that the appraised value was $60,650. We accessed the tax records in the State of Texas, and San Antonio particularly, and we found that one of the comparables used to justify the sales price and the VA guarantee on Captain Bowler's property was an EPIC property.

The sales price listed on the appraisal was for $64,450. Based upon the information we have been able to receive, there may have been as much as a 25 percent reduction in that price so that the true cost to EPIC was somewhere around $43,000 or $44,000, and not $64,000 as indicated.

We also checked two other appraisals that we have been able to get our hands on yesterday and this morning, both of which have comparables. These are VA home loans to military personnel, both of Which were based on EPIC comparables, listing the full sales price without any indication of the rebate or the service fee rebated to EPIC. This is just based upon the information we have been able to find out through the records in Texas.

Senator MURKOWSKI. Thank you, Mr. Principi.

Now I want to reflect on a statement that Mr. Principi brought up because I think it needs to stand the scrutiny of an understanding that the plan—and I quote—of EPIC Limited Partnership was essentially to purchase homes in a new subdivision and then rent them at a loss, thus generating tax advantages. The motivation for that obviously means different things to different people. But, clearly, this was as a consequence of the inability of the houses to sell, which we assume primarily was due to the economic decline associated initially from the standpoint of the houses. And we can discuss this openly. I have no objection.

Initially, the idea was to build the houses and sell the houses. And as a consequence of the inability to sell the houses came the rental scheme.

Mr. PRINCIPI. That is not our understanding, Senator.

Senator MURKOWSKI. All right. I think this is what we need to address, because I have a hard time assuming that somebody is going to build houses for tax writeoff purposes for rental. I would assume that this is a bail-out as a consequence of the inability to sell the houses. And if the case is something other, I think the record ought to show that. But perhaps I am missing something here.

Mr. PRINCIPI. Sir, it is our understanding that EPIC was buying the properties, not to turn around and sell them the next day, but rather to lease the properties for a period of time and obtain tax benefits for the limited partners. After the subdivision was completed in 2 or 3 years, or maybe 5 years EPIC investors in addition to the tax shelter would realize a profit on their investment through an appreciation in the real estate market. Unfortunately, that was not to be the case. After 5 years, the partnerships would turn around and sell the homes. Ellison was selling them to EPIC knowing that EPIC was going to rent these properties, hold them until the subdivision was completed, and then sell them. Ellison certainly would not have done so had it known that it was building homes and now was going to have to compete against the very entity it was selling homes to. That is what our understanding is, Senator.

Senator MURKOWSKI. Well I think that it is very important to know the nature of the business relationship between Ellison and EPIC. It will be necessary, Mr. Principi, for this particular area to be researched very carefully. Also, we have to be realistic to recognize when the economy is involved and factors of the ability of the developer and the builder and the financier, as well as the innocent person, who theoretically would purchase these houses, is all threatened. Then you get a situation where it is every man for himself. And while this is going on, we have the obligation of maintaining the oversight of the VA's responsibility here, because these are VA guarantees and we need to know whether they are being taken advantage of in an unscrupulous manner.

And this committee wants to proceed on the basis of factual information relative to those possibly responsible for undermining the VA guarantee program as it is structured, as well as to identify areas of oversight within the VA Administration that are inadequate, if indeed that be the case.

I would like to refer now to the questions that I asked the Captain with regard to separation of the alleged fraud in the EPIC transaction which I think perhaps Mr. Principi outlined in his statement. That is why I again went over it. And then I want to talk about the appraisal process separately. So if you would proceed, Captain Magid.

Captain MAGID. Senator, if it pleases the committee, I would like to supplement Mr. Principi's response.

Senator MURKOWSKI. Please so do.

Captain MAGID. Thank you.

As I understand it, the Ellison scheme was to create artificially high comparable sales EPIC so that they could then derive an unjustified——

Senator MURKOWSKI. All right. Please address how that could have happened with an allegedly independent appraisal determining values unless somebody was buying off the appraiser.

Captain MAGID. Not possessing that information, Senator, I would suggest that it was equally possible to accomplish that scheme by selling the first homes built in the subdivision, in this case, the model homes which were sold to EPIC, and then leased back by the developer for purposes of selling the other homes. And the initial sales of the model homes were, of course, made at the artificially inflated prices. And the records available to an appraiser would not reflect the substantial cash rebates and service fees that did, in fact, flow back to EPIC.

Senator MURKOWSKI. So what you are saying is the appraiser looks at the amount on a deed of trust as part of his appraisal process and would not know that there had been a reduction in a model home to move it?

Captain MAGID. Yes, sir. It would appear that that would be the most likely outcome. However, I have a rather strong opinion that ultimately some appraisers should have become aware of this widespread practice of wholesale conveyances to EPIC. So it would appear then that there is a question of the lack of integrity of some of the appraisers and the appraisals.

Senator MURKOWSKI. Are you aware of whether or not in this case and in the research you have done there was a list of approved and disapproved appraisers? Or can you enlighten us? There has been some information provided to the committee about this.

Captain MAGID. Yes, sir.

There were a number of approved appraisers.

Senator MURKOWSKI. And these were approved by whom, the VA?

Captain MAGID. By the VA, sir. And they do have a review process within the VA, and as a function of that process they have rapidly escalated the decertification of a number of the appraisers in the San Antonio area.

Senator **Murkowski**. Are you inferring that, if you were on the approved list, that status had something to do with a higher appraisal, vis-a-vis somebody who was on the disapproved list? I mean, it would seem to me that this addresses a responsibility from whoever in the VA authorizes this appraisal process, because if you are on a good list or a bad list, somebody makes that determination, and it is either made on the basis of professional inadequacies or for other reasons.

Captain **Magid**. Sir, if you are not on the approved list it is my understanding that the VA will not accept the appraisal.

Senator **Murkowski**. All right.

The VA is here, and I wonder if whoever is likely to volunteer jump up in a seat.

Mr. **Vogel**. Mr. Pedigo.

Senator **Murkowski**. Mr. Pedigo has volunteered. [Laughter.]

Would you please come forward? And perhaps Mr. Walsh would share the microphone.

What we are interested in, first of all, is to get a brief explanation of whether indeed—please introduce yourself in your response, sir—then give us an indication of how you get on the good guy's list and the bad guy's list and then we will get into the second question.

Mr. **Pedigo**. Yes. I am Keith Pedigo, Director of the Loan Guaranty Service for the Veterans' Administration.

The so-called list of appraisers really does not consist of good and bad. It is only good.

Senator **Murkowski**. So the good guys are either on the list of doing appraisals or they are not on that list?

Mr. **Pedigo**. That is correct.

All of the appraisals that we do are done by private appraisers who have applied to us to do the appraisals. Before we put them on that list they have to prove to us that they have the experience in the appraisal field.

Senator **Murkowski**. Do you require MAI or is it——

Mr. **Pedigo**. We do not have specific designations that are required, but we do look at their experience and the recommendations that they submit.

Senator **Murkowski**. Who pays the appraisers?

Mr. **Pedigo**. The appraisal fee is paid by the veteran in most instances; however, on new construction involving a subdivision, the master appraisal is paid for by the developer or the builder.

Senator **Murkowski**. And do you accept the master appraisal on the subdivision? Do you accept that as the appraisal?

Mr. **Pedigo**. Well, first of all, we assign the appraiser from our list. It is not assigned by the builder.

Senator **Murkowski**. That is my point. You just told me that in new subdivisions the appraiser is provided by the developer, builder, et cetera. Do you accept that or not?

Mr. **Pedigo**. We review the appraisal.

Senator **Murkowski**. Do you accept it or do you go out and hire your own appraiser? Or do you make the applicant pay for a separate appraiser?

Mr. **Pedigo**. Well, Senator, I think some explanation is in order. I cannot simply answer that.

Senator MURKOWSKI. Well that is fine, and you can explain all you want, but I am going to ask that specific question when you get through.

Mr. PEDIGO. All right.

We assign the appraisal to one of the appraisers on our roster. The builder has nothing to do with assigning the appraiser. Once that appraiser completes his appraisal, it is submitted to the Veterans' Administration regional office. In the case of Ellison Homes, that would be the San Antonio outstation office. It is then reviewed by VA staff appraisers. These are full-time VA employees who have experience in the appraisal field. We have the final determination as to what the reasonable value of that particular property or the particular model types in the case of a subdivision will be. Neither the appraiser nor the builder have any input once that appraisal is submitted to us. The final determination rests with the VA.

Senator MURKOWSKI. All right.

Do you require in that case the serviceman to pay for that appraisal? I am talking about the case where you have a new subdivision, and the builder-developer submitted his appraisal, and I assume what you are telling me is that your people have looked it over.

Mr. PEDIGO. Yes.

On what we call a master appraisal, the cost of the appraisal is paid for by the builder.

Senator MURKOWSKI. That is fine. Then you are telling me that if I want to go in and buy one of those homes I do not have to pay for an appraisal.

Mr. PEDIGO. If you were buying an existing home, you would pay. But in a master certificate of reasonable value, that appraisal has already been paid for by the builder. The VA merely issues a piece of paper indicating a reasonable value for that particular property.

Senator MURKOWSKI. So the answer is what?

Mr. PEDIGO. The answer is that the veteran would normally not pay for that appraisal on new construction.

Senator MURKOWSKI. All right.

So on new construction in a new subdivision, the veteran does not pay for the appraisal. But if it is an existing residence that the veteran is buying, the residence would get a current appraisal and he would pay for that appraisal.

Mr. PEDIGO. Yes, sir.

Senator MURKOWSKI. And do you as a matter of policy or course on new subdivisions certify in some way the authenticity of the builder's appraisal which you have reviewed?

Mr. PEDIGO. Well, it is not the builder's appraisal.

Senator MURKOWSKI. Well, the developer's.

Mr. PEDIGO. It is our fee appraisers' appraisal.

Senator MURKOWSKI. Their appraisal?

Mr. PEDIGO. Yes. The appraisal is done by a VA-designated appraiser.

Senator MURKOWSKI. So the VA-designated appraiser goes into that subdivision and reviews it, observes the planning in streets and physically does his own appraisal then. It is not the builder's appraisal.

Mr. **Pedigo.** That is correct.

Senator **Murkowski.** All right. That is fine.

And the issue that we have discussed here today is how can the VA accept appraisals which theoretially compare existing "like" sales within a reasonable period of time when the sales are not really "like." We have these appraisals before us, and we have the specific dates of comparison and they are within a few months of each other, all in the same subdivision, by the same builder, simply on different streets. We see a home that is owned by EPIC appraised at $64,450, and that home is either unoccupied or available for rental. That strikes me as hardly a typical value because it does not relate to homes that are occupied and recently purchased by individual veterans; those would seem to be more representative of actual sales and values. I mean, it would appear to even someone who is not too familiar with the process that you have two apples and an orange here in these three appraisals, because, theoretically, you have got folks living in two of them, with the selling prices listed as $59,000, and then you have got one over here, the same square footage, $64,450, and that is the basis of comparison on which some gentleman signed off on this appraisal form.

And then we have the allegations of rebates associated with the manner in which EPIC was attempting to maintain a cash flow of some kind, and allegations of kickbacks and so forth.

We are all aware of what happens when subdivisions get in trouble. People try and stay alive by innovative methods. And the issue is—while there may be a fine line between innovation and fraud—if there is fraud involved, then that is something else again and it is more serious.

And we have seen in the case of Captain Bowler obvious injury, a threat to his career. But the identification of fraud in his case appears to be in the area of the appraising process and whether it is truly representative of value at a given time. And if there is, either knowingly or unknowingly, a situation where we are allowing unoccupied homes to be supportive of a value associated with other homes through questionable methods, it is a pretty serious situation. And I think the VA has to be called upon to explain to us just what the realities are here. Please proceed.

Mr. **Pedigo.** Well, Senator, I cannot at this time comment as to whether or not there was fraud or misrepresentation by and of the parties of interest in this transaction. In addressing this particular appraisal, there is nothing on its face that would give any indication that there is anything wrong with the comparable sales that were selected by the appraiser. These were three recent sales. I will accept your representation that these were all unoccupied properties at the time. I do not know that that was actually the case.

Mr. **Principi.** No. I believe that one property was sold to EPIC, one was a VA and one was FHA. We we have confirmed, and you can assume for the moment that the third property, comparable number three, was in fact sold to EPIC. And let's assume for the moment that there was a "discount" or rebate and a "servicing" fee, and the price paid by EPIC for that house was $20,000 less. If we could just proceed on those two assumptions, could you please describe whether, in your view, this represents an accurate appraisal, apart from whether there was fraud involved or not? Is there a problem given those two assumptions?

Mr. PEDIGO. Given the assumption that there may have been a $20,000 rebate here, then that sheds some new light on this appraisal. But I think the real question is, was the appraiser aware that there was such a rebate in this particular transaction? Certainly if he was aware, he should have made some sort of adjustment when he reconciled the three different prices on the comparable sales. It is impossible at this point in time, without further investigation, to determine whether or not he knew or should have known.

Mr. PRINCIPI. Would that also be true, Mr. Pedigo, with regard to Block 18F on the appraisal form, regarding neighborhood data, where it indicates that at the time of this appraisal, 8 percent was in fact rented, if that was shown not to be accurate? Assuming again that over 40 percent of the community was being held out for rental investment purposes, would that affect the appraisal of the value of the home that Captain Bowler purchased?

Mr. PEDIGO. Well, I want to say that I am not an appraiser. I have some experience in appraisal as a result of being in the program for 17 years, but I don't consider myself to be an expert in appraisal.

I think it is probably reasonable to conclude that if in fact the rate was 40 percent instead of 8 percent that that could well have had some impact on the value. It it might have been different than what we see on this particular appraisal report.

Mr. PRINCIPI. During the time that you were in this program—and you have been in the program for over 17 years—was the VA aware of the EPIC partnerships and the fact that they were buying homes, and that many of these homes were purchased in Texas? Did the VA in Houston or San Antonio have any idea, or do you recall their having any idea, that many, many of these homes were being purchased by EPIC and being held for rental purposes until such time as they would be sold?

Mr. PEDIGO. I cannot answer that question today. We have had some pretty short notice on this particular issue and have not had a chance to fully develop it. But we would be more than happy to provide that information for the record once we are able to develop it.

[Subsequently, the Veterans' Administration furnished the following information:]

The Agency will provide the committee with a copy of the report concerning the EPIC Corp. when it is available.

Mr. PRINCIPI. Were you accompanied by an appraiser today from Texas?

Mr. PEDIGO. No, not from Texas, but I have a supervisory appraiser from our central office staff.

Mr. PRINCIPI. Could you please have him come forward for the Senator? And perhaps he can shed some light on the nature of this appraisal.

Mr. PEDIGO. Yes, sir.

Mr. PRINCIPI. Please identify yourself. And do you have a copy of the appraisal that we are looking at now?

Mr. **Greaves**. Mr. Bowler has just shared his copy with me. My name is Robert Greaves and I am a supervisor appraiser on the central office staff.

Senator **Murkowski**. Would you care to comment on your evaluation of that appraisal in view of the discussion which we have had? There is not much point in going back and introducing you to the problem, I am sure you are aware of our concern. And we would appreciate any comments you would care to make on our questions of, you know, how can you have two apples and an orange over there.

Mr. **Greaves**. Well, based on what I have heard, I feel a little bit uncomfortable with it. We have not been able to investigate the matter thoroughly enough to know whether or not indeed the appraiser was aware in the instance of comparable number three that these rebates were involved. We have thus far been unable to determine that that was well documented in the marketplace and a matter of public record.

Senator **Murkowski**. Well, tell me a little bit about it. Now you are an appraiser yourself. You are going to go out and appraise this particular property for Texas Homestead Mortgage Co. in San Antonio. We have received a legal description and you get the order. Walk us through a 30-second process here.

You are instructed to go out and make the appraisal because I want to buy the home.

Mr. **Greaves**. Well, I would first, go out and look at the home. In this case, the home may not have been there because it was proposed. So I may have based it on plans. But then there would be an investigation of the marketplace to see what sales were available.

Senator **Murkowski**. How would you make that analysis?

Mr. **Greaves**. Well, it would be, in most cases, a review of records that are available in the marketplace.

Senator **Murkowski**. What, deed of trust? Look at recorded deed of trust?

Mr. **Greaves**. We could look at a deed of trust, multiple listing service, whatever housing data reports that may be available to us.

Senator **Murkowski**. Now you are theoretically making a lot of appraisals because that is your business and you have a feel for markets and you know when the economy is slipping. You can observe. You better than anybody else know when there has been an abundance of homes, and buyers are not buying when things are getting tough. And you know the problem that puts the mortgage company in, and the problem it puts the developer in. And, of course, the papers say the housing market is down. And the advertising goes up, and you are sensitive to these market changes. So how does that affect your awareness that well, gee, you know, the builder wants to sell the house. He is going to try to keep values up because he has got cost plus profit in it. So how do you account for those exposures that you know are there just because you know the market?

Mr. **Greaves**. Well, again, we rely on his judgment to analyze the market.

Senator **Murkowski**. You rely on whom?

Mr. **Greaves**. On the appraiser's judgment of the marketplace.

Senator **Murkowski**. So you would basically hold the appraiser responsible.

Mr. **Greaves**. Exactly.

Senator **Murkowski**. Or knowing that if there are likely to be any special deals floating around that keep the price up, he is supposed to be sensitive to it. Is that right?

Mr. **Greaves**. Yes, if that information is available in the marketplace. There is no evidence that we have seen that this Ellison and EPIC relationship was a matter that was documented in the marketplace.

Senator **Murkowski**. Other than they have gone broke.

Mr. **Principi**. Let me just interject. I can appreciate that. And you were probably not in Texas. But here you have headlines in the San Antonio newspapers—"Will the Other Shoe Drop on City Homeowners?"—back in 1985, explaining how EPIC and Ellison were doing work, and how Ellison was paying rebates and "service" fees to EPIC. Then you have other articles in the San Antonio papers with headlines like "Ellison Offers $6 Million To End Suit,"again describing how homeowners—veterans and military service personnel—were prejudiced.

How is it that no one in the VA system said, "We may have a problem? We may have a problem that veterans and active duty people are being hurt." And yet you come before us today and say that no one knew anything about this.

Mr. **Greaves**. You are asking me about this particular appraisal at this particular point in time. The appraisal for this property was conducted in 1984. In 1984, there was no common knowledge that this particular situation existed.

Mr. **Principi**. And I am asking whether the VA itself, post-1984 but pre-1988, should have known that there may have been a problem down there and taken some action to look into it.

Mr. **Pedigo**. Mr. Principi, may I address that?

Mr. **Principi**. Yes.

Mr. **Pedigo**. I think we need to tell you that at some point after Captain Bowler obtained his VA loan we became concerned about the values that Ellison Homes was asking for and that our appraisals were reflecting. We told Ellison that we were going to change our approach to appraising his properties, which in effect would have resulted in lower values.

When we told Ellison that this was going to be our approach, he effectively pulled away from VA appraisals and started submitting his appraisals to the FHA because he felt that he could get more favorable consideration value-wise at that agency.

Those appraisals then, when there was a veteran involved would be converted to a VA Certificate of Reasonable Value under a reciprocal agreement that we have with the FHA.

When we started noticing that we were getting a lot of conversions on Ellison homes, we told Ellison that we would no longer accept those conversions automatically; that we would review each one to assure ourselves that we were getting dollar for dollar value in those FHA conditional commitments.

Mr. **Steinberg**. Mr. Chairman, may I interrupt for 1 second?

Senator **Murkowski**. Surely.

Mr. **Steinberg**. Could you please identify when that transaction occurred? When did you first have those concerns and when did you advise Ellison of them?

Mr. **Pedigo**. Bob, do you know the date on that?

Mr. **Greaves**. The date that we declined to take further HUD conditional commitments was I believe in March of 1986. The action was taken after a study by our Houston office, which oversees San Antonio. That is the date we directed them to no longer accept conditional commitments under any conditions

Mr. **Steinberg**. And, Tony, what is the date of the articles that you are reading?

Mr. **Principi**. August of 1985. And this other one is more recent, January 1987.

Mr. **Steinberg**. Thank you.

Mr. **Principi**. I do recall the aggressive action you took in that case because I remember we received certain calls and visits by the Texas builders and many builders from around the country concerned about what the VA was proposing to do and how it would impact on their industry. And we listened. But I do remember your coming forward with that plan.

Senator **Murkowski**. I assume then that it is your observation that FHA continued to be more accommodating than the VA to the homebuilders in question here.

Mr. **Greaves**. That is our view, yes. Senator Murkowski. And we would not have any idea what position FHA is in with respect to their insurance program on these particular mortgages.

Mr. **Steinberg**. Let me interrupt again if I may, Mr. Chairman, to say for your information and for the information of the panel, that as you know, Senator Cranston is the chairman of the Housing Subcommittee, on the Banking Committee, and we have advised the subcommittee's staff of the inquiry into this matter. We have made the testimony available that we received in advance. We will also make this transcript available.

Senator **Murkowski**. Do you have anything to add, Robert, on the matter of appraisals? The indication has been that the VA took action as a consequence of being alerted, but the barn door is already open. So you can go back and relate to when you should have known or when you should have taken action. But the facts are that you took action as a consequence of your observation of a situation that was developing, including that it was not in the best interest of the VA to guarantee those loans. Is that basically correct?

Mr. **Greaves**. Yes.

Senator **Murkowski**. And I assume, in hindsight, you wish you would have taken that action earlier.

Mr. **Greaves**. Probably so, Senator.

Senator **Murkowski**. Now I am going to ask Captain Magid if you would explain your position that fraud was in evidence in the case of Captain Bowler. I am going to ask you two gentlemen from the VA to help us interpret whether in your opinion, that constitutes fraud or not.

Captain **Magid**. Yes, Senator.

In addition to the articles that Mr. Principi has presented, there were other articles with equal notoriety, front page articles, dating back prior to the---

Senator MURKOWSKI. Don't give me too much lead. Now I am aware of the articles. I want your allegations of fraud. That is what I really want to zero in on.

Captain MAGID. Yes, sir.

My contention is that the practice of establishing a subdivision by initially selling a model home and a few other homes to EPIC at an artificially inflated price was done for the sole purpose of creating a fraudulent benchmark price so that people such as Captain Bowler would be fraudulently induced to buy a home supported by a VA guarantee, with an appraisal reviewed by the VA that contained comparables, reflecting EPIC conveyances with these inflated purchase prices.

Senator MURKOWSKI. Are you satisfied that that is evidence?

Captain MAGID. Yes, sir, I am.

Senator MURKOWSKI. Would you cite specifically if you can why that, in your opinion, constitutes evidence? Because it would seem to me that up until this point you are concluding based on less specific evidence than we would like to have. And if you have it, we ask that you provide it to us. And it is also an obligation of the representatives of the Veterans' Administration if they have evidence to provide it so we can take action. Please proceed.

Captain MAGID. Sir, I am not sure if I understand the question then.

Senator MURKOWSKI. The question specifically is the question of whether this constitutes evidence for the allegation that there was fraud with respect to your client. It is your contention there is fraud. You said, in effect, that the creation of fraud was in the area of discounts, kickbacks, or lower prices, or whatever.

I am trying to relate here to something that we can grab hold of and take action, if indeed it is necessary. We need something tangible. Obviously we cannot ask the builder for it because he would probably say he didn't have it. Where can we turn?

Captain MAGID. Sir, I would suggest the appraisers themselves would be the best source of this evidence.

Senator MURKOWSKI. All right.

Captain MAGID. My investigation has revealed that a very limited number of appraisers rendered hundreds if not thousand of appraisals in the relevant subdivisions. It would appear incredulous to me that they would not have been aware of this regular wholesale practice of conveying large numbers of homes from the developer to EPIC.

Senator MURKOWSKI. Would you recommend to us that the VA investigate this, the Inspector General investigate this? John Vogel, the head of the department, perhaps could respond.

Mr. VOGEL. I am John Vogel, the Chief Benefits Director. I cannot cast any light on the specifics; on it, Senator Murkowski. The VA Inspector General has had a referral on this issue, and they are heading an investigation and it is in its early formative stages.

Senator MURKOWSKI. And when might you estimate that the report might be available to the committee?

Mr. VOGEL. Mr. Morani, the Acting Inspector General might be able to give a time frame on that, Senator.

Mr. MORANI. Senator, we had just opened that investigation in January 1988, so it is ongoing.

Senator MURKOWSKI. All right.

And it will address the issues here that have been discussed in general?

Mr. MORANI. The investigation is coupled with the current IG audit at the Houston regional office.

Senator MURKOWSKI. What relief would you suggest might be available to Captain Bowler if indeed it is proven beyond a reasonable doubt that there was some kind of fraud, collusion or perhaps inadvertent oversight by the VA? Is there some relief that an innocent——

Mr. MORANI. I would have to refer that to the program people.

Senator MURKOWSKI. So that we do not jeopardize a career here. I wonder if Mr. Vogel could indicate if there is some administrative relief available when a situation gets out of hand and the career of an innocent member of the armed services is in jeopardy?

Mr. VOGEL. We have had cases similar to that in some other matters, in which case we seek to obtain recovery from the defrauding party and would not interfere by holding the individual liable. But I don't know what the outcome might be.

Senator MURKOWSKI. No. But do you have that administrative authority if indeed——

Mr. VOGEL. If we go after the wrongdoer.

Senator MURKOWSKI. But if you do not recover from the wrongdoer, do you let the innocent victim off the hook?

Mr. VOGEL. Yes, we can.

Senator MURKOWSKI. You can do so administratively on a case by case basis?

Mr. VOGEL. That is right, sir.

Senator MURKOWSKI. Thank you.

Please proceed.

Captain MAGID. Yes. Thank you.

If I may I would like to refer back to my suggestion that the investigation by the Inspector General should reveal that this was a widespread pattern of practice. And I would feel that the conclusion should be drawn that it is not merely Captain Bowler that is a victim of this problem, but that there are hundreds of similarly situated victims. And it would appear that rather than have these victims go through the hardship of a foreclosure, and then go on their knees, if you will, to the Waiver and Compromise Committee of the VA, the VA should make a determination that all of these victims should be granted the opportunity to convey a deed in lieu of foreclosure to the VA, and have a complete waiver of any liability granted to all of these victims.

Senator MURKOWSKI. I think that is certainly a reasonable recommendation, Captain. And I appreciate your constructive suggestions in this regard. I think by getting all the players here involved that we are beginning to address the concerns of Captain Bowler and the exposure that he and many other service personnel have been under, and address the oversight responsibility of the VA, and the fact that the VA did see fit to take action. It is comforting to know from counsel that the Banking Committee will be addressing the role that FHA have played in perhaps continuing, unbeknownst to its internal oversight, this process that has clearly gotten out of hand and is going to cost the taxpayers an awful lot of money.

I am not going to refer, Captain Magid, to the specifics on the appraisal because I think we have discussed that.

I would like to hear from the two VA gentlemen who have volunteered their expertise to comment on Captain Magid's summary, if you will, of the allegation of fraud. And you have taken action at the VA. You don't know the specifics of this case. The VA is investigating, as we have heard, but is there something else you can add with regard to where we are here?

Mr. PEDIGO. I think at this point I would want to wait for the outcome of the investigation. But at this point in time, the foreclosure action on Captain Bowler's house has been put off until April 5 in an effort to give the agency time to develop some additional information in order to see what type of relief might be available to him. We will not take any action to terminate his loan until we have satisfied ourselves that all pertinent information has been developed.

Senator MURKOWSKI. So it may be that while he has got a date of April, and in view of the fact that the VA investigation might take a little longer than that, that he might receive consideration on an extension of that date.

Mr. PEDIGO. Yes. We will look into the possibility of extending that if it is necessary.

Senator MURKOWSKI. I would hope, Captain Bowler, that gives you some encouragement.

I don't know how much more we can specifically pursue. Obviously, we have explored an area, and we have unearthed some rather disturbing observations. We don't have all the answers. How could circumstances develop where innocent people are hurt? On the other hand, the realities of a declining economic situation create problems that are just facts of life. And the unfortunate part of this is that the economy may have declined to such a point that even if we can finger anybody or anything, there might not be much blood left in the turnip. But that again is a harsh reality. And we can learn from some of these lessons.

I think we have done a fair job today, and I want to thank the chairman of the committee, Senator Cranston, who has allowed us this extended time frame to explore these area and particularly for his willingness to, on the Banking Committee, address the exposure of another guarantor, a Federal guarantor, that is responsible to taxpayers, FHA. And I want to thank all of you who were kind enough to testify. I think particularly helpful was the attitude of the VA in coming forth and saying, hey, this is what we have done. This is our opinion. This is what we are going to do.

And I want to thank Tom and Chris for the personal efforts that they have made, as well as John and his staff on the other side. A lot of work has been done to put together a base from which to ask some intelligent questions. I think we have gotten some partial answers. There is obviously going to be more. We are going to be looking forward to the report of the VA in that investigation because that is really their job and ours to review it, and go over it with them and respond to it. And we have spent an interesting period of time on it. I too wish the oil prices would go up, but wishing is not going to do it, they tell me.

Tony, do you have anything else?

Mr. PRINCIPI. No, sir, other than to thank the witnesses as well as Sam Walsh for coming in to testify in this matter.

Senator MURKOWSKI. Jon has asked for some time, which I am going to grant, and ask that he conclude the hearing. I am supposed to have been in two places a half hour ago and I am going to try to get to one anyway.

Mr. STEINBERG. Thank you.

Senator MURKOWSKI. Thank you, all you witnesses. I am very appreciative.

Mr. STEINBERG. Let me just be very brief and clarify a couple of things.

Captain Magid and Captain Bowler, you both testified I believe before Representative Barnard's Subcommittee of the House Government Operations Committee. Is that correct?

Captain BOWLER. Yes, sir, it is.

Mr. STEINBERG. And when was that?

Captain MAGID. That was on Thursday, February 17.

Mr. STEINBERG. I would like to ask the Acting Inspector General on what basis the investigation was opened in January of 1988, if you can reveal that.

Mr. MORANI. We do not normally reveal how we argued our particular targets.

Mr. STEINBERG. All right. Well it is not necessary to discuss that on the record. We might want to discuss that off the record at some point. Thank you.

Captain Magid, you indicated that you had some other front page articles in addition to those that Tony made reference to. Have you provided those for the record?

Captain MAGID. Yes, sir. Those articles have been made available to the committee.

[The newspaper articles appear on p. 522.]

Mr. STEINBERG. All right. Thank you.

I wanted also to note, and Senator Murkowski might be interested in this as well as he concludes, you made a reference on page 7 of your testimony, Captain Magid, to the Real Estate Settlement Procedures Act, which is again a piece of legislation on the jurisdiction of the Housing Subcommittee on the Banking Committee. And we have, as I said, referred your testimony to the staff of that subcommittee, and in addition to looking at FHA involvement in this they will be looking into your assertions of noncompliance with that Act, which I believe is a relatively recent enactment, but I assume it predated this transaction.

Captain MAGID. Yes, sir. I believe, the Code section I referred to existed as far back as 1974.

Mr. STEINBERG. All right.

Senator MURKOWSKI. Thank you, Jon.

Mr. STEINBERG. Thank you, Senator.

I want to also request both the Department of Veterans' Benefits and the Inspector General to make sure that any reports on this testimony and the transactions that have been described here that are provided to Senator Murkowski, as, of course, they should be, are also provided to the chairman. And, finally, I want to make a comment which I don't believe has been raised, and that is that it seems to me that the Federal Government has a rather special responsibility to take appropriate action to, if it is reasonable to do so, to prevent service personnel from being victimized and defrauded I do not recall any reference to the responsibility to the Department of the Army here. But it seems to me that, just as the VA has a responsibility to be vigilant and to take notice of what appears on the public record and in the press about potential serious problems in homeownership, the Department of the Army has a responsibility when it is obviously aware that there are subdivisions, such as this was, that were probably populated rather heavily by service personnel—I believe there is a great many service personnel that area. And I realize that you are not here on behalf of the Department of the Army, and I certainly do not want to even suggest that you should hazard to respond to what I am saying, but it does seem to me that there is a responsibility on the part of the Department of the Army here, and we intend to pursue that with the Defense Department.

On behalf of Senator Cranston, I want to thank you both for appearing. I believe the official letters of invitation that we sent you probably crossed with your travel here, but they will arrive so you will have them for the record. And, Mr. Walsh, we appreciate your being here as an individual citizen to share your information with us. And Mr. Vogel, Mr. Pedigo, and Mr. Greaves, we thank you for coming forward and being with us, and we thank everybody for remaining here so long.

This hearing is adjourned.

[Whereupon, at 1:52 p.m., the hearing was concluded.]

APPENDIX

II

100TH CONGRESS
2D SESSION

S. 2049

To establish an Independent National Commission on the Veterans' Administration Home Loan Guaranty Program; to amend title 38, United States Code, to authorize reductions in the interest rate on loans made by the Veterans' Administration to finance the sales of properties acquired by the Veterans' Administration as the result of foreclosures, and to establish creditworthiness requirements for assumptions of Veterans' Administration vendee loans; and for other purposes.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 4 (legislative day, FEBRUARY 2), 1988

Mr. CRANSTON (for himself, Mr. MURKOWSKI, Mr. BENTSEN, and Mr. GRAMM) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

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A BILL

To establish an Independent National Commission on the Veterans' Administration Home Loan Guaranty Program; to amend title 38, United States Code, to authorize reductions in the interest rate on loans made by the Veterans' Administration to finance the sales of properties acquired by the Veterans' Administration as the result of foreclosures, and to establish creditworthiness requirements for assumptions of Veterans' Administration vendee loans; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Veterans' Home Loan Program Improvements Act of 1988".

SEC. 2. INDEPENDENT COMMISSION TO ASSESS THE VETERANS' ADMINISTRATION HOME LOAN GUARANTY PROGRAM.

(a) ESTABLISHMENT AND MEMBERS.—(1) There is established an independent Commission on the Veterans' Administration Home Loan Guaranty Program (hereafter in this section referred to as the "Commission") to assess the Veterans' Administration Home Loan Guaranty Program under chapter 37 of title 38, United States Code.

(2)(A) The Commission shall consist of nine voting members, none of whom may at the time of appointment be employees of the Federal Government and who shall be appointed, not later than April 30, 1988, by the Administrator of Veterans' Affairs in consultation with the chairmen and ranking minority members of the Committees on Veterans' Affairs of the Senate and of the House of Representatives (hereafter in this section referred to as the Committee".

(B)(i) Four members of the Commission—

(I) shall be broadly representative of the housing, home loan, and real estate and related industries, including real estate agents, mortgage bankers and other lending institutions which make Veterans' Administration-guaranteed loans, home builders, appraisers, and holders and servicers of Veterans' Administration-guaranteed loans; and

(II) shall be selected on the basis of their knowledge of and experience in the housing, home loan, and real estate and related industries and the Veterans' Administration Home Loan Guaranty Program.

(ii) Five members shall be representative of (I) the general public (and not be affiliated in any way with the interests described in subdivision (i)) and shall be selected from academic and commercial enterprises based on their knowledge and experience in areas pertinent to the work of the Commission and (II) veterans' service organizations. Not less than three of such five members shall be selected as representatives of the general public pursuant to clause (I).

(3)(A) The Administrator of Veterans' Affairs, the chairmen and ranking minority members of the Committees, the Commissioner of the Federal Housing Administration and the Chairman of the Federal National Mortgage Association (or, in the case of any such individual, a designee of such individual) shall be ex officio, nonvoting members of the Commission.

(B) The Administrator shall designate two employees of the Veterans' Administration serving in loan guaranty divisions in Veterans' Administration regional offices as ex officio nonvoting members of the Commission and may designate additional ex officio nonvoting members from other Federal Government agencies or government-sponsored entities.

(4)(A) The Administrator shall designate to chair the Commission a member from among the voting members of the Commission who is appointed pursuant to paragraph (2)(B)(ii).

(B) The chairman of the Commission, with the concurrence of the Commission, shall appoint an executive director, who may not at the time of appointment be an employee of the Veterans' Administration and who shall be the chief executive officer of the Commission and shall perform such duties as are prescribed by the Commission.

(C) The Administrator shall furnish the Commission with such professional, technical, and clerical staff and services and administrative support as the Commission determines necessary for it to carry out the provisions of this section effectively.

(b) FIRST REPORT.—(1) Not later than twelve months after the date on which at least five members of the Commission have been appointed, the Commission shall submit to the Administrator and the Committees a report on the Commission's findings and recommendations on the matters described in paragraph (2).

(2) The report required by paragraph (1) shall include the Commission's findings, views, and recommendations on the following matters:

(A) Ways to reduce default and foreclosure rates on Veterans' Administration home loans made or guaranteed under chapter 37 of title 38, United States Code.

(B) Ways to minimize Veterans' Administration property acquisition, management, and disposition costs resulting from foreclosures on such loans.

(C) The management and disposition of loans made by the Veterans' Administration to finance the sale of properties acquired by the Veterans' Administration as the result of such foreclosures.

(D) The causes of increases in the ten years preceding the enactment of this Act in Veterans' Administration Home Loan Guaranty Program costs and ways to reduce such costs.

(E) Ways to improve the solvency of the Veterans' Administration's Loan Guaranty Revolving Fund.

(F) The need for improvement of program benefits and assistance to veterans participating or desiring to participate in the Home Loan Guaranty Program.

(G) The desirability and feasibility of coordinating Veterans' Administration policies (both statutory and administrative) and practices, particularly in the areas of property acquisition, management, and disposition, with the policies and practices of other Federal Government agencies and government-sponsored entities.

(H) Such other matters relating to the administration of chapter 37 of title 38, United States Code, by the Veterans' Administration as (i) the Commission considers appropriate, or (ii) are suggested by the Administrator or, concurrently, by the chairmen and ranking minority members of the Committees.

(c) ADMINISTRATOR'S INTERIM AND FINAL REPORTS.—(1) Not later than two months after the date on which the Commission's report is submitted under subsection (b), the Administrator, after consultation with the Commission, shall submit an interim report to the Committees. The interim report shall contain—

(A) the Administrator' s views on the desirability, feasibility, and cost of implementing each of the Commission's recommendations, and the actions taken or planned with respect to the implementation of each such recommendation;

(B)(i) the Administrator's views on any legislation or regulations proposed by the Commission, (ii) the Administrator's views on the need for any alternative or additional legislation or regulations to implement the

Commission's recommendations, (iii) the Administrator's recommendations for any such alternative or additional legislation, (iv) the proposed text of any regulations referred to in subclause (i) or (ii) which the Administrator considers necessary and the proposed text of any legislation referred to in such subclause which is recommended by the Administrator, and (v) a cost estimate for the implementation of any regulations and legislation referred to in such subclause; and

(C) any other proposals that the Administrator considers appropriate in light of the Commission's report.

(2) Not later than six months after the date on which the Commission's report is submitted under subsection (b), the Administrator shall submit a final report to the Committees. The final report shall include the actions taken with respect to the recommendations of the Commission and any further recommendations the Administrator considers appropriate.

(d) TERMINATION.—The Commission shall terminate ninety days after the date on which the Administrator submits the final report required by subsection (c)(2).

SEC. 3. INTEREST RATE REQUIREMENTS FOR VENDEE LOANS.

Section 1818(d) of title 38, United States Code, is amended by adding at the end the following new paragraph:

"(7) The Administrator shall make a loan to finance the sale of real property described in paragraph (1) of this subsection at an interest rate that is lower than the prevailing mortgage market interest rate in areas where, and to the extent, the Administrator determines, in light of prevailing conditions in the real estate market involved, that such lower interest rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the Veterans' Administration Loan Guaranty Revolving Fund established by section 1824(a) of this title.".

SEC. 4. CREDITWORTHINESS DETERMINATION WITH RESPECT TO ASSUMPTION OF VENDEE LOAN.

Section 1817A of title 38, United States Code, is amended—

(1) in subsection (a)(1), in the matter preceding clause (A), by striking out "guaranteed, insured, or direct housing loan obtained by a veteran" and inserting in lieu thereof "loan guaranteed, insured, or made"; and

(2) by amending subsection (f) to read as follows:

"(f) This section shall apply—

"(1) in the case of loans other than loans to finance the purchase of real property described in section 1816(d)(1) of this title, only to loans for which commitments are made on or after March 1, 1988; and

"(2) in the case of loans to finance the purchase of such property, only to loans which are closed on or after April 15, 1988.".

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Opening Statement
Senator Alan Cranston
Chairman
Committee on Veterans' Affairs

Hearing on FY 1989 Budget for Veterans' Programs' and S. 2049, the proposed "Veterans' Home Loan Program Improvements Act of 1988"

March 4, 1988

Good Morning. Welcome to today's hearing on the fiscal year 1989 budget for veterans' programs, and S. 2049, the proposed "Veterans' Home Loan Program Improvements Act of 1988".

This is a very full agenda, and the hearing will run until about 11:30 a.m. today. As you can see from the witness list, today's witnesses will include panels from the VA, six veterans' service organizations, the Department of Labor, a housing industry panel, and a panel of veterans who have experienced certain serious problems related to the VA home loan program.

Before getting to the issues involved in today's hearing, I would like publicly to congratulate the Administrator and the many other VA officials who worked so very hard to provide, as I have requested, the agency's prepared testimony as well as answers to many of my pre-hearing questions by last Thursday, with many others submitted this Wednesday and yesterday. I also greatly appreciate the VA's very prompt submission of its report on S. 2049 and its testimony relating to that legislation. I know that all this took a great deal of effort and coordination, and I want everyone involved to know how very grateful we are for their fine efforts. I also want to assure them that we have been and will be closely reviewing the VA's responses and giving their views careful consideration and, I am sure, posing followup questions in writing as well as at this hearing.

In the same vein, I would like to thank the many other witnesses who cooperated with us in providing their testimony in a timely fashion as requested. Your efforts are very much appreciated -- as is everyone's cooperation in connection with the change in the date for today's hearing.

One issue of concern that will be addressed in today's hearing is the substantial increases in the cost of the VA home loan program, and legislation which I introduced along with Senators Murkowski, Bentsen, and Gramm, S. 2409, to address some of the problems now facing the program. I am looking forward to hearing the testimony of all of the witnesses who will presenting testimony today on this legislation.

FY 1989 Budget

The first area of concern is the budget for the next fiscal year, which begins October 1. I regret that I cannot be very positive regarding the Administration's FY 1989 budget for veterans' programs. It is once again inadequate when it comes to honoring our commitments to those whose service and sacrifices have kept our Nation strong and free in the 20th Century.

The Administration's budget for FY 1989 appears at first glance to provide a substantial, seven-percent increase over FY 1988. But that is the result of extensive rigging of the figures. There is, in fact, no increase in funding from FY 1988 to FY 1989.

First, the FY 1989 budget includes the cost of the FY 1989 compensation COLA (as well as the cost of the FY 1988 COLA), but the cost of the FY 1988 COLA -- over $350 million -- is not included in the FY 1988 budget. Second, the FY 1988 numbers do not include the over $500 million appropriation needed this year to keep the Loan Guaranty Revolving Fund (LGRF) solvent. Third, the VA's FY 1989 budget includes $1.1 billion for the Administration's proposed credit reform legislation -- which does not entail any new VA spending, but just creates the false appearance of a huge increase in the VA budget.

When the FY 1988 numbers are adjusted -- as they should be -- to reflect these COLA and loan guaranty costs and the credit-reform figures, the FY 1989 budget is virtually the same dollar amount as FY 1988. In fact, it is a few million dollars less.

In order to provide for vital, relevant programs for FY 1989 and on into the 90's, I will be proposing and seeking the Committee's support for numerous changes in what the Administration has submitted:

VA Health-Care Programs

- First, in the area of VA health care, we must reject what seems to be one of the Administration's perennial cost-cutting proposals -- the reduction of staffing for medical care. This year, the Administration would eliminate 1,782 staff years from VA medical facilities, despite the Administration's own estimate that veterans' needs for VA health-care services will increase in FY 1989. And the actual reduction in existing facilities is over double this number since 1,882 more staff years are needed for the activation of construction projects that will come on line in FY 1989.

I believe we must, at a minimum, maintain the FY 1988 staff years of 194,140 and provide for the additional new-activation staffing needed as well as the resources for high priority initiatives such as alternatives to institutionalization, AIDS treatment, homeless veterans, enhanced quality assurance efforts, and an improved medication distribution system.

- Second, we must reject the Administration's justification for eliminating 1,944 staff years as the prediction of a one-percent productivity increase. We have seen such productivity increases proposed year after year, and it is clear that they are not based on specific plans for increased efficiency; rather, they constitute a threadbare disguise for arbitrary reductions imposed by the Office of Management and Budget in VA health-care personnel.

- Third, hospital and outpatient staff-to-workload ratios are proposed to be reduced in order to eliminate 1,684 staff years. But VA staff-to-patient ratios are well below comparable ratios in community facilities, and I see no basis for believing that expanding that gap is in the best interest of the VA or its veteran patients. Moreover, it is not just the number of patients that determines the amount of staff needed, but the level of care which they need as well. The aging of the veteran population and the growing numbers of patients suffering from AIDS require increased, not decreased, staffing ratios. Again, this Administration proposal simply masks another OMB-proposed cut in VA health-care personnel.

- Fourth, the Administration's budget proposes funding for only half of the $85 million cost of the January 1989 pay-raise in the medical care account. In previous years, the Adminstration has not provided for any portion of the pay-raise in its initial budget request. Prior to FY 1988, the Congress has funded the pay raise in whole or in part through supplemental appropriations. For FY 1988, Congress provided all of the pay-raise funding for personnel in VA health-care facilities in the regular appropriations bill. This was done in order to keep the OMB from attempting once again to squeeze the VA health-care system by denying the VA the additional funding needed for the full pay-raise costs until, in the second half of the year, Congress appropriated the funds.

Ironically, for FY 1989, the Administration is turning this protective practice into a negative aspect by seeking to short-circuit the process through its proposal from the outset to require VA health-care facilities to absorb half of the estimated amount of the January 1989 pay-raise in the medical care account.

Once again that's just another arbitrary cut -- this time a cut of $42.4 million -- in the resources for providing health-care services to veterans.

- Fifth, staffing in the VA health-care system has been under a serious strain in the past year and the VA is having a difficult time responding to the competitive tactics of non-Federal facilities. There are shortages of nurses, pharmacists, physical and occupational therapists, and other specialized health-care professionals. Beds have been closed and services have been reduced as a direct result of these staffing shortages. Yet, the VA's FY 1989 budget does not appear to contain any appreciable funding for new recruitment and retention strategies other than a $5.5 million increase in tuition assistance support and a $137,000 increase in scholarship funds. Without caring, competent health-care personnel, the finest buildings, beds, and equipment fall short of doing the job. We must work to ensure that the VA has the tools and the resources necessary to recruit and retain sufficient numbers of quality personnel.

- Sixth, one of the greatest health challenges confronting the VA is AIDS. A number of my questions this morning will be aimed at determining whether the VA budget provides adequate resources to care for the increasing number of veterans with AIDS and ARC as well as to help lead the fight to find better ways to treat and prevent these terrible diseases.

Since 1983, I have been in the forefront of Congressional efforts to provide the resources needed for research, education, prevention, and other public health activities related to AIDS. I firmly believe that the VA must provide leadership in our country's battle to eradicate AIDS. Last June, our Committee held a lengthy and very informative hearing on AIDS, which led to legislation -- included in S. 9 and now close to final Congressional action -- to establish programs and policies regarding AIDS education, training, non-discrimination, counseling and testing, and confidentiality.

I am very pleased that the VA has taken a number of steps -- establishing an AIDS program office, 4 clinical-care units, and 3 research centers -- to provide better care for veterans with AIDS and to expedite research concerning this disease.

However, I believe very strongly that, in order to fund AIDS programs, we must not sacrifice other vitally important VA programs and services by siphoning resources away from them. As the VA continues to develop AIDS clinical units to meet the special needs of veterans with AIDS in certain key areas of the country, we must not neglect, through the shifting of personnel and other resources, the needs of all other eligible veterans who seek care and treatment at the VA. The VA's mission demands that research efforts in areas particularly relevant to veterans, such as spinal cord injury, PTSD, and aging, continue without dimination.

- Seventh, another major challenge facing the VA today is the aging of the veteran population and the impact it is having upon the VA health-care system. The medical care needs of aging and elderly veterans is of great concern to me. The VA must focus far more than it has on providing needed care in ways that will enhance the quality of life. Therefore, I am particularly interested in the VA's plans and ongoing efforts not only for nursing home care but for hospital-based home care, adult day care, respite care, and other initiatives to provide noninstitutional alternatives for veteran-patients and for which no expansions are planned in the budget. The budget request is inadequate in both of these areas.

- Eighth, yet another arbitrary medical-care-account cut is in the Vietnam-era veterans' readjustment counseling program. The Administration proposes a $4.7 million/79-staff-year cut in the Vet Center program due to "expected decreases in utilization" and "organizational structure." I don't believe that either rationale for reducing funding for this program will holds up; and you can be sure that I will oppose such cuts in this vital program.

I will not accept these kinds of after-the-fact rationales for reductions in staffing in VA health-care facilities -- or in VA Regional Offices, for that matter; they are simply an attempt to pare budget deficits at the expense of providing necessary services to veterans.

Thus, we must restore these cutbacks and move forward to meet the challenges of today and tomorrow. In the area of health care, we must --

* make available to the VA the resources -- including recruitment and retention bonuses -- needed to overcome severe health personnel shortages;
* help meet the needs of older veterans in more effective, compassionate ways and move forward aggressively to provide treatment programs that avoid unnecessary institutionalization;
* provide for more nursing home beds through greater conversion of under-used VA hospital beds, expansion of the State Home program, and construction of more VA nursing home beds;
* provide resources to meet additional costs of caring for veterans with AIDS; and
* spur VA research in such priority areas as rehabilitation and prosthetic research, spinal cord injury, PTSD, aging, and AIDS. In the area of prosthetic and other rehabilitation research, we need increased, not decreased, effort, as the Administration proposes.

VA Benefits Programs

• Regarding benefits programs, first, we must provide funding to permit a cost-of-living adjustment in the compensation and DIC rates this year. To that end, I have already introduced -- on January 26, 1988 -- along with Senator Murkowski, S. 2011, a separate COLA bill in order to help ensure that this year's COLA is enacted on a timely basis. As we did last year, we must flatly reject the Administration's proposal to provide annual automatic increases in compensation benefits by indexing them permanently to the Consumer Price Index.

• Second, Department of Veterans' Benefits staffing has been spread very thin in recent years and -- despite the continuing high numbers of loan guaranty applications, the demand for increased personnel in the Loan Guaranty Service to deal with increasing foreclosures and property acquisitions, and the increasing applications under the New GI Bill -- the Administration proposes a 492-staff year reduction in DVB -- 248 in regional offices and 75 in the Loan Guaranty Service. The Administration appears to believe that the VA general operating expense account consists of excess funding which can be cut at will to meet OMB-ordered reductions in domestic spending programs. The Administration also seems to believe that the way to improve the beleaguered loan guaranty program is to reduce its already inadequate staffing resources. This is pure nonsense.

I believe that past DVB budget cuts also have contributed to the substantial financial problems now confronting the loan guaranty program. For example, they have prevented the VA from providing adequate levels of financial counseling to veterans in default on their VA-guaranteed loans, which sadly has resulted in an increased number of foreclosures at great cost to the VA and to the veterans who lose their homes. Also, the inability to process promptly bids on VA-acquired foreclosed properties has caused sales of such properties to fall through, resulting in the VA having to pay the often-substantial costs of holding such properties.

I think it should be clear to everyone by now, however, that whatever "fat" may once have existed in DVB staffing levels a few years ago is gone; we're now down to -- and below -- the bone. Since FY 1980, DVB staffing has been cut by 4469 staff years. These cuts have been responsible in large measure for preventing the VA from meeting its standards for quality and especially for timeliness in the adjudication of veterans' benefits claims.

Thus, although those 492 employees are a relatively small part of the overall VA budget, they are very badly needed by DVB to provide benefits counseling and outreach and claims processing and adjudication services and to administer the loan guaranty program. Indeed, we need to add DVB staffing for these purposes, not reduce it.

- Third, again this year, Congress should reject the Administration's unfair proposals to eliminate millions of war veterans' entitlements to a burial plot allowance.

- Fourth, the Administration's proposed credit subsidy legislation not only serves falsely to magnify the requested funding for veterans' programs, but poses a threat to the continuation of the VA home loan program by imposing new controls over the number of loans which the VA could guarantee. The VA budget documents describe this proposal as designed to "identify the grant equivalent subsidy of Federal Credit programs". The proposal would require appropriations of the estimated federal "subsidies" in veterans' guaranteed loans based on the full principal of all loans which are projected to be guaranteed during the coming fiscal year -- despite the fact that such loans do not actually cost the VA anything unless they go into foreclosure, which, historically, less than 5 percent of them have done. Subsidy appropriations also would be required for direct and vocational rehabilitation loans.

The goal of the credit subsidy proposal, according to the Administration documents, is to "take into account explicitly the most important aspect of Federal credit -- the economic subsidy offered to borrowers". The Administration's motivation for this legislation is clearly stated: the subsidy amounts or "limitations [will] serve as ceilings on the volume of new credit that may be offered by the account." Once the ceiling -- i.e., the projected amount of loans for which the subsidy-equivalent appropriations were made -- is reached, apparently no more loans could be guaranteed, absent further appropriations. Moreover, most program revenues, including the 1-percent loan fee, apparently would no longer go into the LGRF but instead would be deposited in some account in the Treasury.

Accordingly, as LGRF resources declined -- because of Administration-required loan sales -- it is very unclear whether that traditional primary source of funding for the program would continue to be available to finance the program or whether the program would instead be forced to rely 100 percent on appropriations.

In sum, I suspect very strongly that the credit subsidy legislation would establish an OMB-driven mechanism for limiting the number of loans which the VA can guaranty.

The effect of the Administration's proposed credit subsidy legislation thus would seem to be to deprive the veterans who apply for a VA guaranty after the ceiling is reached of the opportunity to use their hard-earned entitlements. I cannot and will not accept this thinly-disguised attempt to reduce or eliminate this veterans' benefit.

Although I am very concerned about the increased costs of the home loan program in recent years, it is a veterans' benefits program, which cannot be expected to pay for itself. I find it unacceptable for it to be dealt with as just another Federal budget item available as a source of deficit reduction at the will of OMB.

Overall, in this year's budget proposal the Administration has failed, once again, to recognize the fundamental maxim that the costs of veterans' programs are a continuing cost of defending our Nation in wars past and of maintaining our national security for the future.

There is no doubt that, in light of the great need to reduce the towering Federal deficit, we must exercise prudence and restraint in making our budget recommendations. Unless we show a firm resolve to reduce and eliminate deficits, many of our current, serious economic problems will worsen dramatically.

But in our efforts to restrain Federal spending we must establish and follow a reasonable sense of priorities. The attack on deficits has got to treat veterans fairly.

Veterans' Employment Programs

- First,, the Administration has again failed to request any funding for the Veterans' Job Training Act to promote training and employment opportunities for long-term jobless Vietnam-era and Korean-conflict veterans. This excellent program has provided more than 54,000 veterans with the chance to gain the skills and on-the-job experience needed to help them break away from sustained unemployment and build more productive lives for themselves and their families. Last year, Congress, over the Administration's opposition, rescued this program with supplemental appropriations of $20 million, and the Administration's request is again deficient in this area.

- Second, with respect to the Local Veterans' Employment Representative (LVER) program, the Department of Labor will provide funding for 213 fewer staff years in FY 1989 than is required by the formula in the Department's regulations. The number of LVER base positions has been reduced from 1,379 in FY 1987 to 1,252 in FYs 1988 and 1989, or about a 9-percent cut.

S. 2049

After reflecting on the current state of the VA home loan program, following staff field inspections carried out in January, Senator Murkowski and I have concluded that a new approach and perspective are needed to try to come to grips with some of the difficulties affecting the program.

Traditionally, for the vast majority of VA-guaranteed loans the cost to the Government of providing the guaranty has been quite small and the benefit to veterans and to society quite significant. However, as a result of the downturn in certain areas of the economy in recent years, high default and foreclosure rates on properties guaranteed by VA loans, coupled with a large VA inventory of foreclosed homes acquired at liquidation sales, have threatened the viability of the program by substantially increasing program costs. Indeed, the FY 1989 VA budget documents show a $526-million deficiency in the LGRF, despite LGRF appropriations for FY 1988 of $389.8 million.

These program costs parallel the increasing debt which veterans have incurred through the foreclosure of homes purchased with VA-guaranteed loans. For the sake of both the veterans using or wishing to use their home loan benefits, as well as the program itself, I concluded early last year that action was needed to try to stem the great increase in program costs and to take steps to minimize them.

Accordingly, in 1987, I, along with Senator Murkowski, developed S. 1801, which became the most comprehensive VA home loan program legislation which our Committee ever reported. Major provisions of the bill -- as enacted in the Senate-House compromise agreement on H.R. 2672 on December 21, 1987 (Public Law 100-198) -- provide direction for significant steps to improve the financial solvency of the VA home loan program and reduce its dependency on taxpayers' funds while also improving the program benefits available to veterans and maintaining the basic purposes of the program.

The enactment of that legislation, however, has not completed our work in this area. We must find further ways to reduce the impact that excessive foreclosures and property management and disposition problems are having on the program and on our Nation's veterans. We also need, to the greatest extent possible, to build in increased program protections to help minimize the impact of economic depression, such as has occurred in states where oil production plays a major role in the economy and which could strike any area of the country. To achieve these goals, Senator Murkowski and I developed S. 2049.

Commission on the Veterans' Administration Home Loan Guaranty Program: Section 2 of S. 2049 proposes the creation of an independent Commission on the Veterans' Administration Home Loan Guaranty Program. This Commission would be charged with carefully assessing the status of the program, analyzing the problems -- particularly the recent program-cost and foreclosure-rate increases -- the program is facing, evaluating possible solutions to those problems, and recommending changes to improve the financial stability and solvency of the program and the benefits and service offered to veterans. The Commission would be modeled after the Commission on Veterans' Education Policy, established by section 320 of the Veterans' Benefits Improvement and Health-Care Authorization Act of 1986 (Public Law 99-576), which was created and is currently carrying out its statutory mandate to assess VA educational assistance programs.

Under S. 2049, the Administrator of Veterans' Affairs, in consultation with the chairmen and ranking minority members of the Senate and House Veterans' Affairs Committees -- each of whom, as well as the Administrator, or their designees, would participate in the Commission's study and deliberations as nonvoting, _ex officio_ members -- would select the nine voting members of the Commission. These nine members, none of whom could be Federal Government employees at the time of their appointments, would be chosen on the basis of their knowledge of the home loan program and general experience and knowledge relating to the mission of the Commission. Four members would be chosen specifically because of their expertise in the housing, home loan, real estate, and related fields relevant to the program. Five of the members would be representative of, first, the general public -- selected from academic and commercial enterprises based on their knowledge and experience in areas pertinent to the work of the Commission -- and, second, the veterans' service organizations.

The combined expertise of representatives from the various industries to which I just referred, each of which plays a vital role in the home loan program, as well as of representatives of the veterans who use the program, and the perspective of the public members will allow for a comprehensive, in-depth examination of the program. Two employees who work in the loan guaranty division of a VA regional office also would be selected to be _ex officio_ members of the Commission, to ensure that it has the viewpoint of those who are best able to see what is happening "in the field".

Additionally, in order to evaluate the desirability and feasibility of coordinating certain VA policies (both statutory and administrative) and practices -- especially in the areas of the acquisition, management, and disposition of foreclosed properties -- with those of other Federal Government and Government-sponsored entities, such as the Federal Housing Administration and the Federal National Mortgage Corporation, representatives of such entities would also be represented on the Commission in an _ex officio_ capacity. Similar entities could, at the Administrator of Veterans' Affairs' discretion, also be represented.

The Commission would have one year to submit to the Administrator and the Committees a report on its findings and recommendations. The Administrator would then be required to evaluate that report and, after consultation with the Commission, submit the Administrator's views on its recommendations to the Committees. To ensure that the Commission's recommendations are given serious consideration by the Administrator and, where appropriate, implemented, the Administrator would be required to submit to the Congress 6 months after the Commission's report a follow-up report on the actions taken with respect to the recommendations of the Commission and any further recommendations which the Administrator considers appropriate.

I believe that the present state of the home loan program requires the intensive, focused, objective scrutiny -- removed from the day-to-day pressures of politics and program administration -- that an independent national commission of experts can provide. Their expertise, insights, and advice can aid us in our efforts to ensure that economic downturns at either the national or local level do not reduce the opportunities for veterans to use the home loan program benefits they have earned in service to our country.

Interest Rate on Vendee Loans: Section 3 of S. 2049 would require the VA to offer an interest rate for vendee loans which is lower than the prevailing mortgage-market interest rate where and to the extent the Administrator determines -- on a property-by-property or regional basis, as appropriate -- in light of prevailing conditions in the real estate market involved, that the lower interest rate is necessary in order to market the property competitively and is in the interest of the long-term stability and solvency of the LGRF.

In certain areas of the country, competition among sellers of foreclosed properties has led many of them to offer sales inducements in the form of advantageous financing terms. In Houston, for example, many sellers are offering below-market-interest-rate loans. Sellers who are not themselves lenders will often "buy down" the interest rate on the loan -- that is, provide a subsidy of the monthly mortgage payment sufficient to correspond to a substantial reduction in the interest rate. In such a market, the VA must have effective sales tools available if it is to reduce an inventory of properties which had grown from 8,977 in FY 1980 to 22,584 by the end of FY 1987.

Of course, while lower-interest-rate loans may be necessary to sell properties in some areas, they also reduce the VA's income over the term of the loan. Additionally, the lower yield provided by such loans reduces their attractiveness to buyers in the secondary market. Therefore, our bill calls for below-market interest rates to be offered only when that would be in the interest of the solvency of the LGRF -- that is, when the costs associated with lowering the interest rate would be less than the cost of either reducing the purchase price of the property or of continuing to hold and maintain the property.

Creditworthiness Determination for Assumptions of Vendee Loans: Section 4 of S. 2049 would extend the creditworthiness requirements applicable to VA-guaranteed loans -- recently enacted in Public Law 100-198 -- to vendee loans.

Last session, along with Senator Murkowski, I introduced in S. 1801 a provision -- which, as modified, became part of the compromise agreement enacted in Section 10 of Public Law 100-198 -- to require generally that, before a VA-guaranteed loan could be assumed by the buyer of a veteran's home, the creditworthiness of the assumptor be established. Sale of the property without approval of the assumption based on the creditworthiness of the buyer would cause the loan to become due and payable in full.

Prior to the effective date of this new enactment, there had been no restrictions on the assumption of VA-guaranteed loans, as is still the case with respect to vendee loans. In contrast to conventional loans, which generally cannot be assumed, the purchaser of the veteran's home had been able to assume the veteran's loan without undergoing a credit check or meeting any underwriting criteria. Although the free assumability of a loan may make it easier for a homeowner to resell, it also can enable persons to buy a home even though their creditworthiness would not otherwise allow them to achieve homeownership. Such persons obviously generally are more likely to default on their loans, resulting in the VA acquiring more foreclosed properties and incurring additional expense. Easy assumability also has fostered abuses such as "equity skimming".

The potential abuses resulting from the free assumability of loans are as applicable to vendee loans as they have been to VA-guaranteed loans. Accordingly, in order to reduce foreclosures on vendee loans, our bill would extend to persons assuming vendee loans the restrictions on assumability just made applicable to persons who buy homes and assume VA-guaranteed loans from veterans. I believe that this extension would be equitable as well as in the interest of the solvency of the home loan program. The 0.5-percent fee which Public Law 100-198 imposed on buyers who assume VA-guaranteed loans also would be imposed on buyers who assume vendee loans.

After the enactment of these new creditworthiness and fee requirements for assumptions of VA vendee loans, those loans should still provide attractive means of financing -- and thus incentives for buying -- VA foreclosed properties as compared to conventional financing, since the VA interest rate generally will be lower and the VA credit-underwriting requirements more flexible.

No-Bid Formula

I would also like to note one further matter in connection with Public Loan 100-198. Section 5 of that law made certain changes to the formula -- the so-called "no-bid formula" -- for determining whether, after a VA-guaranteed loan goes into foreclosure, it is more advantageous to the Government for the VA to acquire the property or pay the lender under the guaranty. At the Committee's June 17, 1987, oversight hearing on the home loan program, the Mortgage Banker's Association raised concerns that the no-bid formula, by increasing the number of foreclosed properties which are left with, and thus the program costs to, lenders, was diminishing lenders' participation in the program. The new law, therefore, attempted in section 5 to balance the equities and the costs involved with VA loans more evenly than the prior law did.

Specifically, the new law provides that interest accruing during a period of substantial delay in the liquidation sale of the property caused by VA-requested forbearance or from a voluntary bankruptcy under title 11, United States Code, will be excluded from the no-bid calculation as well as the payment to the lender. In return for giving up the right to payment of such interest, lenders would not have to pay the cost -- in the form of a no-bid -- for delays requested by the VA or resulting from circumstances over which they have no control.

I have been advised by the VA that it is interpreting the new provisions, for purposes of implementing regulations, to provide for the cutoff of interest only in cases where the interest cutoff would be the decisive factor in determining whether or not the VA bids on the property. In other cases, where the VA would bid on the property even if the accrual of such interest were not stopped, an interest cutoff would serve to penalize lenders unfairly -- by reducing the amount of the VA's claim payment -- without providing any compensating advantage, i.e., turning a no-bid into a bid situation. I agree with the VA that it certainly was not the intent of this legislation to leave the lenders -- who supported this revision of the no-bid formula -- in a worse position under the new law than they had been under the old.

CONCLUSION

Again, I want to express my appreciation to all of the witnesses for their presence here this morning and their cooperation with the Committee. I look forward to hearing their testimony.

OPENING STATEMENT ON THE FY89 VETERANS' ADMINISTRATION BUDGET
BY SENATOR SPARK M. MATSUNAGA
Senate Veterans' Affairs Committee
414 Russell Senate Office Building
Friday, March 4, 1988

Thank you, Mr. Chairman. Good morning and Aloha, everybody. I'd like to extend my welcome to General Turnage, Chief Medical Director Gronvall, Chief Benefits Director Vogel, Assistant Labor Secretary Shasteen, representatives of the VFW, DAV, PVA, VVA, AMVETS, and The American Legion; and the many other witnesses with us here today for appearing before this Committee to testify on the VA budget and S.2049, legislation offered by the Chairman and Ranking Minority Member to improve the home loan programs.

I wish to echo what Chairman Cranston has said before about the VA's FY89 Budget Request. On the surface, the request seems generous. The agency is asking for $30.1 billion in budget authority and estimates outlays at $29.5 billion. The VA says that the requested budget authority represents a $2 billion increase over current spending. However, I am told that these estimates do not reflect the full cost of compensation COLAs and the $500 million needed to keep the Loan Guaranty Revolving Fund in the black. In addition, I understand that the budget includes over a billion dollars for the President's proposed credit reform legislation, which may be a mere paper transfer of funds between various government accounts, and not a true increase in veterans' programs. This budget also reflects severe cuts in medical care staffing--the backbone of the VA health care system--to the tune of almost 3,800 staff years, if one combines actual staff reductions with the estimated personnel needed to staff facilities that will be coming on-line.

I intend to support the Chairman in helping the Committee to determine the best, most feasible funding levels for the agency's major accounts. I also intend to pay close attention to possible needed revisions in funding priorities at the program level. I know that I can depend upon the VA to cooperate with us in developing a fair, bipartisan budget recommendation which is acceptable to the Executive, to Congress, and most of all to veterans.

Mr. Chairman, with your permission, at a time convenient to you during these proceedings, I would like to pose questions to the Administrator and the Chief Medical Director which arise out of the Committee's field hearing in Honolulu last year on Hawaii health care issues.

Thank you.

# # #

OPENING REMARKS FOR VETERANS AFFAIRS COMMITTEE HEARING ON THE PRESIDENT'S BUDGET PROPOSAL
SENATOR JOHN D. ROCKEFELLER IV
March 4, 1988

It is good to be back in this room with you, Mr. Chairman. I start my fourth year on this distinguished committee, and I know we will benefit as always from the constructive process that you will oversee to consider the Administration's budget and legislative proposals affecting veterans and to come up with our own recommendations for the budget.

As everyone in this room knows, late last year Congress and the President completed some very tough negotiations to bring about a sizable reduction in the federal deficit. We ultimately succeeded in hammering out an agreement, which included cuts or savings that affect just about every program and every citizen, including veterans.

It's not very easy to contemplate another round of budget negotiations, nor is it comforting to know that the deficit is still far too large and still the reason we must continue to press on and make difficult choices about where to cut or achieve savings.

But like last year and ever since Gramm-Rudman was enacted, Congress's role is to set priorities and take human needs into account. When I look at the President's budget proposal for veterans, I think we have to remind ourselves of the nation's priorities and the needs of the men and women whom we owe such an enormous debt.

Beneath the numbers in the budget request, that present a request which could be read to call for a large increase in spending on veterans programs, there are some deeply troubling cuts or gaps that have to be questioned.

Which 1800 positions in veterans medical care are going to be eliminated? At any of the four VA hospitals in my state of West Virginia? Mr. Chairman and General Turnage, our hospitals don't have a doctor, a nurse, a pharmacist, a lab technician to spare. When I visit with veterans around the state or here in Washington, they tell me about hospitals being short-handed and their worries about what could happen to the quality of care being given to veterans.

How will $5 million be cut from Veterans Outreach Centers? By closing any of the four VETS centers in West Virginia or cancelling plans to create a new one in Beckley? My caseworkers and veterans counselors tell me that these centers are heavily used, with younger veterans seeking job advice, friendship, information on VA programs, and other assistance that they feel comfortable asking for in these settings.

Why eliminate the Veterans Job Training Program? There are waiting lists of veterans in states across this country -- veterans who deserve the government's help in getting the skills and practical experience to become productively employed. In my state alone, almost 1000 veterans have benefited from this vital program.

Mr. Chairman, there are other parts of this budget proposal that disturb me. I continue to regret that the VA doesn't agree with us about beneficiary travel, the need for assistance to Atomic Veterans, and Agent Orange.

I do appreciate -- and sincerely so -- the new funds earmarked for a clinical addition at our Beckley VA hospitals. The $15.7 million requested is critically needed, and I am firmly committed to seeing this all the way through the appropriations process. With the construction taking place at Huntington and Clarksburg, West Virginia is more fortunate than others to finally get the resources to modernize and expand veterans hospitals that were built decades and decades ago.

In my view, we're going to have to reject cuts in medical personnel and restore funds in the areas I mentioned. These are not areas to shred or neglect -- they go to the heart of our obligation to veterans.

General Turnage, Mr. Shasteen, I appreciate as always your willingness to join us. You should get an extra medal for your record speed in responding on paper to the not insignificant number of questions submitted by the committee ahead of time. I look forward to continuing our dialogue and working with you in the budget process ahead.

STATEMENT OF DENNIS DeCONCINI
SENATE COMMITTEE ON VETERANS' AFFAIRS
PUBLIC HEARING ON VA'S FY 1988 BUDGET
FRIDAY, MARCH 4, 1988
8:00 AM

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, AND WITNESSES FROM THE ADMINISTRATION, VETERANS ORGANIZATIONS,, THE MORTGAGE BANKING INDUSTRY AND FROM HOMELESS ADVOCACY GROUPS, I AM PLEASED TO BE ABLE TO PARTICIPATE IN THIS HEARING AND WOULD LIKE TO COMMEND THE CHAIRMAN FOR EXPEDITIOUSLY SCHEDULING HEARINGS ON THE FY 89 BUDGET PROPOSALS AND RELATED HOME LOAN PROGRAM LEGISLATION.

AT THE RISK OF SOUNDING REPETITIVE, I WANT TO ECHO THE SENTIMENTS OF CHAIRMAN CRANSTON AND MOST MEMBERS OF THIS COMMITTEE THAT I BELIEVE THIS COMMITTEE, IN A NON-PARTISAN FASHION, WILL DISAPPROVE THE ADMINISTRATION'S PROPOSALS TO REDUCE VA HEALTH CARE PERSONNEL BY ALMOST 4,000. QUITE FRANKLY, I DO NOT UNDERSTAND WHY THE ADMINISTRATION CONTINUES TO SEND PROPOSALS TO CONGRESS WHICH THEY KNOW ARE GOING TO BE REJECTED. THE HEALTH CARE STAFFING LEVEL FOR THE VETERANS ADMINISTRATION IS AMONG THIS SENATOR'S HIGHEST LEGISLATIVE PRIORITIES. ALTHOUGH I CANNOT REMAIN HERE TODAY TO HEAR ALL OF THE TESTIMONY, I AM HERE AT LEAST TO SERVE WARNING THAT I WILL DO ALL THAT I CAN IN COMMITTEE AND ON THE FLOOR TO RESTORE THE STAFFING LEVEL THAT WAS MANDATED BY CONGRESS IN 1986, AND PROVIDE FOR ALL ADDITIONAL STAFF REQUIRED FOR ACTIVATIONS OF NEW FACILITIES. WHILE THE FY 89 BUDGET REQUEST FOR MEDICAL CARE IS $10.3 BILLION, OR APPROXIMATELY $208 MILLION ABOVE THE FY 87 APPROPRIATED LEVEL, IT IS $370 MILLION BELOW WHAT CBO ESTIMATES

WILL BE REQUIRED TO FUND THE CURRENT LEVEL OF VA MEDICAL SERVICES IN 1989. WHAT THAT MEANS IN HUMAN TERMS IS THAT FEWER VETERANS WILL BE SERVED BY THE VA HEALTH CARE SYSTEM, OR WORSE, THOSE VETERANS WILL LIKELY RECEIVE A DIMINISHED STANDARD OF CARE. I FIND EITHER ALTERNATIVE INTOLERABLE.

MR. CHAIRMAN, I WAS SHOCKED TO LEARN THAT THE PRESIDENT'S BUDGET COMPLETELY IGNORES THE EMPLOYMENT NEEDS OF VETERANS BY CALLING FOR NO FUNDING FOR THE VETERANS' JOB TRAINING ACT. THIS PROGRAM HAS BEEN MOST EFFECTIVE IN PROVIDING LONG-TERM JOB OPPORTUNITIES FOR OUR VETERANS THROUGH PRIVATE SECTOR INITIATIVES. AGAIN, I SERVE WARNING THAT I WILL CONTINUE TO FIGHT, AS I DID LAST YEAR WITH SENATOR ROCKEFELLER AND CHAIRMAN CRANSTON, TO RESTORE FUNDING FOR THE VJTA PROGRAM.

MR. CHAIRMAN, I ALSO SHARE YOUR DISSATISFACTION WITH THE ADMINISTRATION'S PROPOSAL FOR HOME LOAN CREDIT REFORM. THIS IS ANOTHER PROPOSAL THAT ATTEMPTS A PAPER TRANSFER BETWEEN GOVERNMENT ACCOUNTS. THE VA HOME LOAN GUARANTY PROGRAM IS THE MOST OFTEN USED BENEFIT OF VETERANS. SUCH A VALUABLE PROGRAM REQUIRES REAL EXPENDITURES, NOT COSMETIC ONES, IN ORDER TO MAINTAIN THE TRUST FUNDS SOLVENCY. YOU CAN COUNT ON THIS SENATOR TO VEHEMENTLY OPPOSE SUCH A MASQUERADE. I DO NOT BELIEVE THAT THE ADMINISTRATION HAS CONSIDERED ALL THE APPROPRIATE OPTIONS. THEREFORE, I SUPPORT THE CONCEPT OF A HOME LOAN GUARANTY COMMISSION. AS TO OTHER ASPECTS OF S. 2049, I AM STILL IN THE PROCESS OF MY REVIEW.

LASTLY, I LOOK FORWARD TO THE TESTIMONY TO BE PRESENTED HERE TODAY AND HOPE THAT WE CAN WORK TOGETHER TO FASHION A BUDGET WHICH

IS TRULY REPRESENTATIVE OF THE NEEDS OF THE VETERAN COMMUNITY. AS I HAVE SAID BEFORE THIS COMMITTEE MANY TIMES IN THE PAST, I BELIEVE VETERANS MUST REMAIN AT THE TOP OF THE NATIONAL AGENDA, DESPITE OUR DEFICIT PROBLEMS. TO SHORT CHANGE OUR VETERANS IS TO SHORT CHANGE OUR NATIONAL SECURITY.

THANK YOU.

STATEMENT OF SENATOR FRANK H. MURKOWSKI (R-AK) ON THE VA'S FISCAL YEAR 1989 BUDGET REQUEST

GOOD MORNING AND THANK YOU, MR. CHAIRMAN. I WANT TO WELCOME YOU, TOM, TO THIS MORNING'S HEARING TO DISCUSS THE VA'S FISCAL YEAR 1989 BUDGET REQUEST AND THE VERY IMPORTANT ISSUES REGARDING THE VA'S HOME LOAN GUARANTY PROGRAM.

AT THE OUTSET, I WANT TO COMMEND THE VA FOR THEIR OUTSTANDING WORK DURING THIS PAST YEAR. I THINK PARTICULARLY OF THE PLIGHT OF THE HOMELESS VETERAN AND THE NATIONAL SCOURGE OF AIDS. IN THESE SITUATIONS, AND IN MANY OTHERS, THE VA HAS BEEN AT THE FOREFRONT BOTH THROUGH THE UNTIRING DEVOTION OF YOUR FINE EMPLOYEES IN THE FIELD AND THROUGH TRULY FIRST-RATE MEDICAL RESEARCH. MY VISITS, AND THOSE OF MY STAFF, TO VA FACILITIES FROM NEW YORK TO SAN FRANCISCO SHOW THAT YOU LEAD A GROUP OF BRIGHT, CARING MEN AND WOMEN SECOND TO NONE IN THE FEDERAL GOVERNMENT. I CONGRATULATE YOU AND THE STAFF OF THE VA ON A JOB WELL DONE.

WITH REGARD TO THE VA'S FISCAL YEAR 1989 BUDGET REQUEST, I AM PLEASED THAT THE VA FARED RELATIVELY WELL IN THE BUDGET PROCESS. WHEN I CONSIDER THE TREMENDOUS DEFICIT WHICH WE MUST FACE, I BELIEVE THAT THE VA BUDGET IS REASONABLE AND FAIR. OF COURSE, THERE ARE INADEQUACIES -- PARTICULARLY IN THE AREAS OF

STAFFING FOR THE DEPARTMENT OF VETERANS' BENEFITS (DVB) AND THE DEPARTMENT OF MEDICINE AND SURGERY (DM&S). I AM CONCERNED THAT THESE REDUCTIONS MAY DIMINISH THE VA'S ABILITY TO DELIVER TIMELY AND QUALITY SERVICES TO OUR NATION'S VETERANS. THE PROPOSED REDUCTIONS IN DVB STAFFING WOULD ESPECIALLY AFFECT THE ADJUDICATION AND HOME LOAN GUARANTY PROGRAMS. THE LOAN GUARANTY PROGRAM HAS SEVERE PROBLEMS DUE, IN PART, TO LACK OF STAFFING SUPPORT. WE MUST FIND A WAY TO INCREASE STAFFING IN THE LOAN GUARANTY PROGRAM IF WE HOPE TO CHANGE THE FLOW OF RED INK FOR THIS PROGRAM. ADDITIONALLY, THERE IS AN EVER GROWING NEED FOR VA OUTPATIENT CARE SERVICES, YET THE VA PROPOSES TO DECREASE STAFFING FOR THAT SERVICE.

IN A PERFECT WORLD, I WOULD SUGGEST THAT THOSE AREAS, AND SEVERAL OTHER, BE INCREASED. THERE ARE MANY DESERVING AND WORTHWHILE VA PROGRAMS WHICH COULD BE IMPROVED OR EXPANDED TO SERVE MORE VETERANS.

THIS NATION IS FACED WITH A TERRIBLY DIFFICULT PROBLEM -- THE FEDERAL DEFICIT. THIS FORCES THOSE OF US IN GOVERNMENT TO MAKE HARD CHOICES. FOR IF WE DO NOT, THE PROBLEM WILL ONLY WORSEN TO THE DETRIMENT OF OUR NATION AND ITS VETERANS. ACCORDINGLY, WE IN THE CONGRESS HAVE THE RESPONSIBILITY TO SET PRIORITIES FOR GOVERNMENT SPENDING. IT SEEMS TO BE IN VOGUE TO BASH THE PRESIDENT OR THE OFFICE OF MANAGEMENT AND BUDGET FOR THEIR ATTEMPTS TO KEEP SPENDING UNDER CONTROL. OF COURSE, I DO

NOT ALWAYS AGREE WITH THEIR FUNDING DECISIONS. BUT I DO RECOGNIZE THAT THE CONGRESS SHARES IN THE RESPONSIBILITY FOR SETTING PRIORITIES AND REDUCING THE FEDERAL DEFICIT. HARSH WORDS ABOUT THE ADMINISTRATION WILL DO NOTHING TO REDUCE THE DEFICIT. AND I MUST SAY THAT IT DISTRESSES ME GREATLY THAT ATTEMPTS BY THE VA TO MAKE COST-EFFECTIVE MANAGEMENT DECISIONS -- LIKE CHANGING THE MISSIONS OF VA MEDICAL FACILITIES -- ARE SO POLITICIZED IN THE CONGRESS THAT WE OFTEN DISCOURAGE THE VA FROM EFFECTIVELY MANAGING ITS RESOURCES TO THE BENEFITS OF ALL VETERANS. LET ME BE CLEAR, ULTIMATELY VETERANS ARE NOT WELL-SERVED BY THIS PROCESS.

THAT IS THE HARSH REALITY. IN FACT, I WOULD GUESS THAT FEW, IF ANY, GOVERNMENT PROGRAMS WILL GET AS MUCH FUNDING AS THEY WOULD LIKE. BUT THE REALITY IS THAT THIS COUNTRY IS IN SERIOUS ECONOMIC TROUBLE. AND WE CANNOT SACRIFICE OUR FUTURE IN ORDER TO ACHIEVE SHORT-TERM GOALS.

IN THIS LIGHT, I BELIEVE THAT THE VA SHOULD BE COMMENDED FOR MAKING HARD CHOICES AND FOR COMING UP WITH A REASONABLE BUDGET PROPOSAL. I AM PARTICULARLY PLEASED THAT FUNDING WAS PROVIDED FOR EXPANSION OF EXTENDED CARE PROGRAMS, EDUCATION PROGRAMS FOR NURSES AND OTHER HEALTH-CARE PROFESSIONALS, HOMELESS INITIATIVES, QUALITY ASSURANCE PROGRAMS, AND AIDS RESEARCH. I AM ALSO PLEASED THAT THE VA DID NOT PROPOSE TO INCREASE THE HOME LOAN ORIGINATION FEE.

I LOOK FORWARD TO HEARING THE TESTIMONY OF THE VA, DEPARTMENT OF LABOR, VETERANS' SERVICE ORGANIZATIONS, AND THOSE WHO DISCUSS THE VA'S HOME LOAN GUARANTY PROGRAM.

THANK YOU, MR. CHAIRMAN.

STATEMENT OF SENATOR FRANK H. MURKOWSKI (R-AK)
REGARDING HOME LOAN GUARANTY
MARCH 4, 1988

THE VETERANS' ADMINISTRATION PROPOSED BUDGET FOR FISCAL YEAR 1989 REQUESTS $658 MILLION TO MEET THE 1989 FUNDING REQUIREMENTS FOR THE HOME LOAN GUARANTY PROGRAM. THIS REQUEST IS **IN ADDITION TO** THE $389 MILLION IN LAST DECEMBER'S CONTINUING RESOLUTION. AND, NOW I READ IN THE FEBRUARY 27TH CONGRESSIONAL QUARTERLY THAT THE VA WILL NEED AN ADDITIONAL $526.6 MILLION TO COVER LOSSES. **OVER ONE-AND-ONE-HALF BILLION DOLLARS** FOR THE LOAN GUARANTY PROGRAM IN TWO YEARS! THIS **IN ADDITION TO** THE MONEY THE PROGRAM RECEIVES FROM:

- THE 1 PERCENT FUNDING FEE,
- THE RESALE OF FORECLOSED PROPERTIES IN THE VA'S INVENTORY, AND
- THE SALE OF VENDEE LOANS.

AND LET US BE CLEAR THAT THIS MONEY IS NOT FOR THE ADMINISTRATION OF THE PROGRAM. FUNDS TO STAFF AND RUN THIS PROGRAM ARE FUNDED IN A SEPARATE ACCOUNT. **THIS MONEY JUST**

COVERS THE LOSSES. OVER ONE-AND-ONE-HALF BILLION DOLLARS THAT DOES MORE THAN DRAIN THE TREASURY AND REINFORCE THE DEFICIT. IT REPRESENTS SCARCE FEDERAL RESOURCES THAT ARE **NOT** AVAILABLE FOR:

- CARE FOR AGING VETERANS,
- AIDS TREATMENT AND RESEARCH,
- VOCATIONAL REHABILITATION FOR CATASTROPHICALLY DISABLED VETERANS,
- DIC REFORM, AND
- NEEDED STAFF TO MANAGE BENEFIT PROGRAMS.

IN THE PAST, THE CONGRESS HAS NOT HESITATED TO APPROPRIATE MONEY FOR THIS PROGRAM BECAUSE WE BELIEVED THAT IT IS AN IMPORTANT AND INVALUABLE BENEFIT TO VETERANS.

HOWEVER, RECENT EVENTS AND THE PROJECTED LOSSES COMPEL ME TO RAISE THE QUESTIONS:

- WHO REALLY BENEFITS FROM THE HOME LOAN GUARANTY PROGRAM?
- IS IT THE VETERANS?
- OR IS IT THE BUILDERS, LENDERS AND REALTORS?

CERTAINLY THE THOUSANDS UPON THOUSANDS OF VETERANS AND MILITARY PERSONNEL WHO LOST THEIR HOMES TO FORECLOSURE AND BANKRUPTCY HAVE NOT BENEFITED BY THIS PROGRAM.

CERTAINLY THE THOUSANDS UPON THOUSANDS OF VETERANS AND MILITARY PERSONNEL WHO ARE INDEBTED TO UNCLE SAM IN AMOUNTS UP TO $27,500 HAVE NOT BENEFITED BY THIS PROGRAM.

NOR IS IT THE DISABLED VETERAN, WHO RECENTLY MOVED FROM TEXAS TO ALASKA, WHO WROTE TO ME ASKING IF THERE IS ANYWAY TO KEEP THE VA FROM TAKING HER SERVICE-CONNECTED DISABILITY COMPENSATION CHECK EACH MONTH TO REPAY HER FORECLOSURE DEBT.

I FULLY RECOGNIZE THAT THE VETERANS' ADMINISTRATION CANNOT BE HELD RESPONSIBLE FOR DOWNTURNS IN THE ECONOMY, LOSS OF JOBS AND OTHER FACTORS WHICH MAY LEAD TO FORECLOSURE. HOWEVER, I DO NOT SUBSCRIBE TO THE THEORY THAT THE PROBLEMS ARE LOCALIZED AND WILL BE SOLVED WHEN THE ECONOMY TURNS AROUND. WAITING FOR THE

PRICE OF OIL TO INCREASE IS **NOT** A SOLUTION. THAT ANSWER WILL NOT CARRY ANY WEIGHT WITH THIS SENATOR.

THERE WILL ALWAYS BE LOCAL ECONOMIC PROBLEMS.

THERE WILL ALWAYS BE INDIVIDUALS THROWN INTO UNEMPLOYMENT.

THE HOME LOAN PROGRAM IS UNLIKE MOST VA PROGRAMS. BY ITS VERY NATURE, THE VA HOME LOAN PROGRAM IS A BUSINESS AND MUST BE RUN LIKE A BUSINESS. IF WE CONTINUE TO SUSTAIN TREMENDOUS LOSSES, AND IN THE PROCESS MORE AND MORE VETERANS, MILITARY PEOPLE AND THEIR FAMILIES LOSE THEIR HOMES TO FORECLOSURE, THIS PROGRAM WILL EVENTUALLY COLLAPSE. THE MINDSET THAT SAYS THE CONGRESS WILL APPROPRIATE WHATEVER WE NEED IS A MINDSET OF FAILURE. INSTEAD, THOSE WHO ADMINISTER THIS PROGRAM MUST TREAT SUCH LOSSES AS IF THEY WERE OCCURRING IN THEIR OWN BUSINESS AND MAKE THE NECESSARY CHANGES TO RECTIFY THE SITUATION.

IF WE IN THE CONGRESS HAVE IMPEDED YOUR ABILITY TO MANAGE THE PROGRAM EFFECTIVELY, YOU MUST ADVISE US ON THE CHANGES THAT MUST BE MADE TO BRING SOLVENCY TO THIS PROGRAM. HOWEVER, I BELIEVE THAT YOU HAVE MORE MANAGEMENT FLEXIBILITY THAN YOU ARE WILLING TO ADMIT. FOR EXAMPLE, IN TEXAS YOU HAVE AN INVENTORY OF 8,000 HOMES, MANY OF WHICH YOU CANNOT SELL UNLESS YOU DUMP THEM AT AN AUCTION WHICH WOULD FURTHER DEPRESS THE REAL ESTATE

MARKET. YET YOU CONTINUE TO ACQUIRE 75 PERCENT OF THE PROPERTIES IN FORECLOSURE IN THAT STATE. THIS RESULTS IN LOSSES EXCEEDING $25,000 PER HOME IN TEXAS ALONE. I AM TOLD THAT A FORMULA IN THE LAW PRECLUDES YOU FROM PAYING THE GUARANTEE IN MORE CASES AND HAVING THE LENDER DISPOSE OF THE PROPERTY. HOGWASH! THE FORMULA IS JUST THAT -- A FORMULA -- THE **VA** PLUGS IN THE NUMBERS. UNDER THE LAW, **THE VA** DETERMINES THE FAIR MARKET VALUE OF THE PROPERTY, NO ONE ELSE. THE FACT THAT YOU HAVE 8,000 HOMES IN YOUR INVENTORY IN THE HOUSTON REGION ALONE INDICATES TO ME THAT YOU HAVE MORE SELLERS THAN BUYERS IN THAT MARKET AND THAT YOUR LIQUIDATION APPRAISAL VALUES ARE INFLATED. IF YOU CANNOT RESELL THESE HOMES AND CONDOS, WHY ARE YOU TAKING THEM BACK?

RECENTLY, MY STAFF VISITED A FEW OF THESE 8,000 HOMES, AND LET ME SHOW YOU WHAT THEY FOUND. THEY FOUND HOMES:

- STRIPPED BARE,

- BOARDED UP,

- NOT MAINTAINED.

IN MANY CASES, THERE WAS NOT EVEN A FOR-SALE SIGN ON THE PROPERTY.

WHAT IS MOST ASTONISHING IS THAT THE VA PAYS A MANAGEMENT BROKER $20 PER MONTH PER HOUSE TO "MANAGE" THESE HOMES. BASED UPON THESE PHOTOS, IT WOULD APPEAR TO ME THAT THE VA GETS LITTLE FOR ITS MONEY.

THE VA ALSO SPENDS MONEY TO MARKET ITS HOMES. LET ME TELL YOU WHAT HAPPENED TO ONE OF MY COMMITTEE STAFFERS WHO ANONYMOUSLY CALLED THE VA TO ASK ABOUT BUYING A VA-OWNED HOME. HE WAS TOLD TO CONTACT A PARTICIPATING BROKER. WHEN HE ASKED HOW TO FIND A PARTICIPATING BROKER, HE WAS TOLD TO CALL BROKERS LISTED IN THE TELEPHONE BOOK UNTIL HE FOUND ONE THAT PARTICIPATED IN THE PROGRAM. I HAVE NEVER HEARD OF A MARKETING SCHOOL THAT TEACHES ITS STUDENTS TO MAKE IT DIFFICULT FOR CUSTOMERS TO FIND OR CONTACT THEM. IF YOU WERE IN THE BUSINESS OF BUILDING AND/OR SELLING HOMES, IS THAT HOW YOU WOULD MARKET YOUR PROPERTIES? I THINK NOT.

THIS MORNING WE SHALL HEAR FROM WITNESSES WHO WILL DESCRIBE A SITUATION WHICH, IF TRUE, AND I EMPHASIZE IF TRUE, DESCRIBES A PROGRAM DOOMED TO FAILURE, NOT SUCCESS.

THEY WILL DESCRIBE A SYSTEM IN WHICH VETERANS AND MILITARY FAMILIES PURCHASED HOMES WITH APPRAISED VALUES NOWHERE NEAR MARKET VALUE. THEY WILL PROVIDE AN INSIGHT INTO HOW GROSSLY EXAGGERATED APPRAISALS LED TO THE COLLAPSE AND FINANCIAL RUIN OF

MANY MORTGAGE COMPANIES, BUILDERS, AND, MOST IMPORTANTLY, INDIVIDUAL VETERANS AND ACTIVE DUTY SERVICEMEMBERS AND THEIR FAMILIES.

I BELIEVE THE COMMITTEE HAS AN OBLIGATION TO RESPOND TO THIS SITUATION.

WE MUST MEET OUR OBLIGATION TO ENSURE THAT VETERANS WHO USE THIS PROGRAM ARE ITS BENEFICIARIES, NOT ITS VICTIMS.

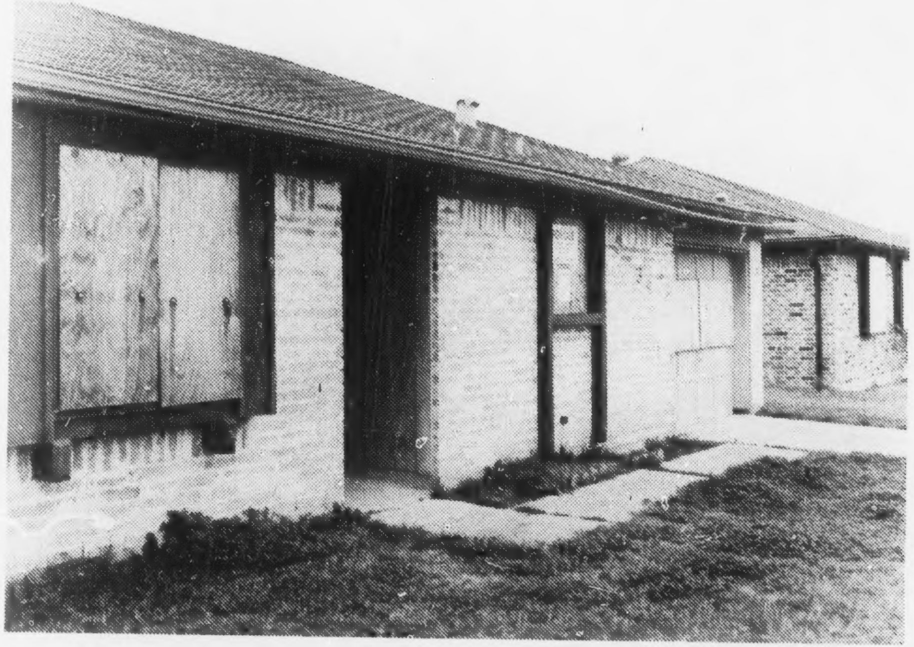
THE HOUR IS LATE. THE TASK IS LARGE. LET'S PROCEED.

OUR WITNESSES ARE:

o CAPTAIN WILLIAM BOWLER, MEDICAL SPECIALIST CORPS, U.S. ARMY

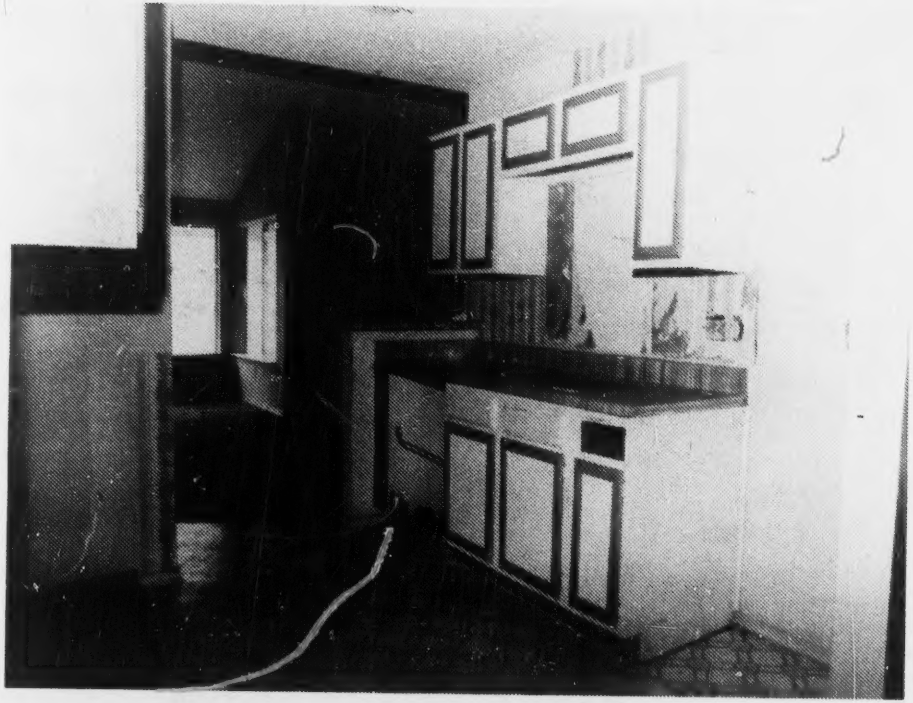
o CAPTAIN DARYL MAGID, JAG CORPS, U.S. ARMY

o RETIRED SERGEANT MAJOR SAM WALSH, U.S. ARMY
SAM WILL BE TESTIFYING AS TO HIS PERSONAL EXPERIENCE WHILE LIVING IN SAN ANTONIO; HOWEVER, HE HAS RECENTLY JOINED THE WASHINGTON STAFF OF THE AMERICAN LEGION. I WANT TO WELCOME SAM BACK TO WASHINGTON AND LOOK FORWARD TO WORKING WITH HIM ON VETERANS' MATTERS.

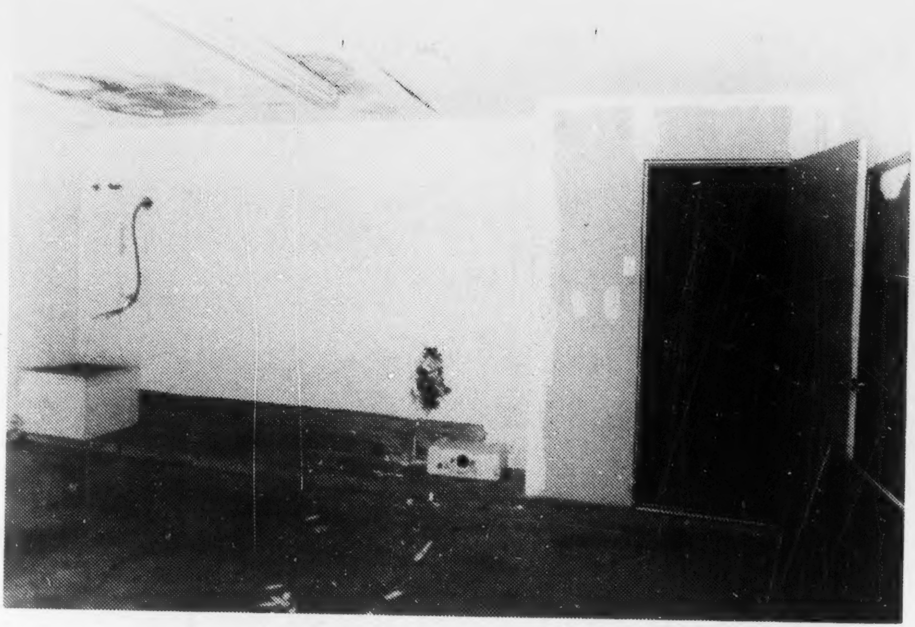


1.—A portion of a row of boarded-up VA-owned homes.

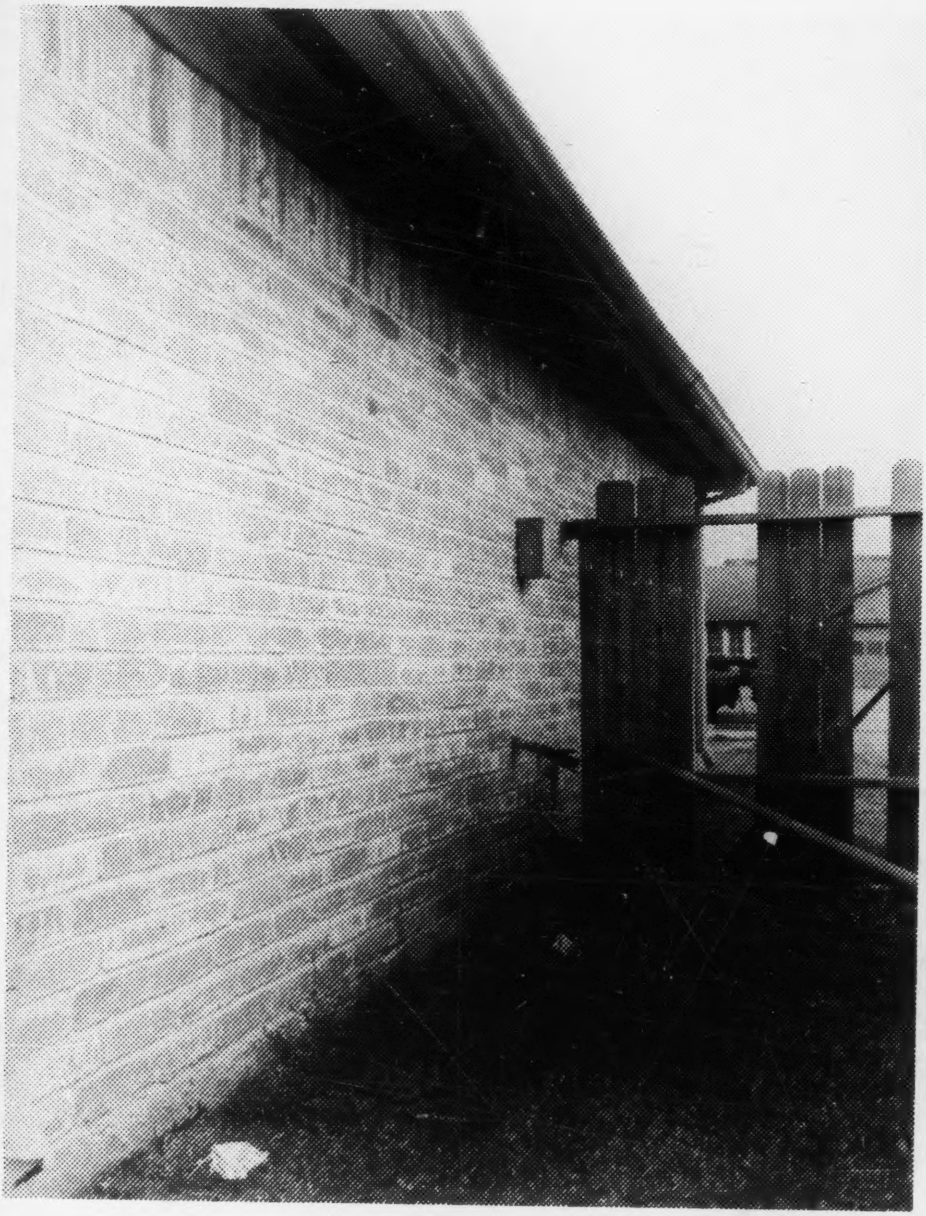
2.—Interior view of kitchen of VA-owned home.



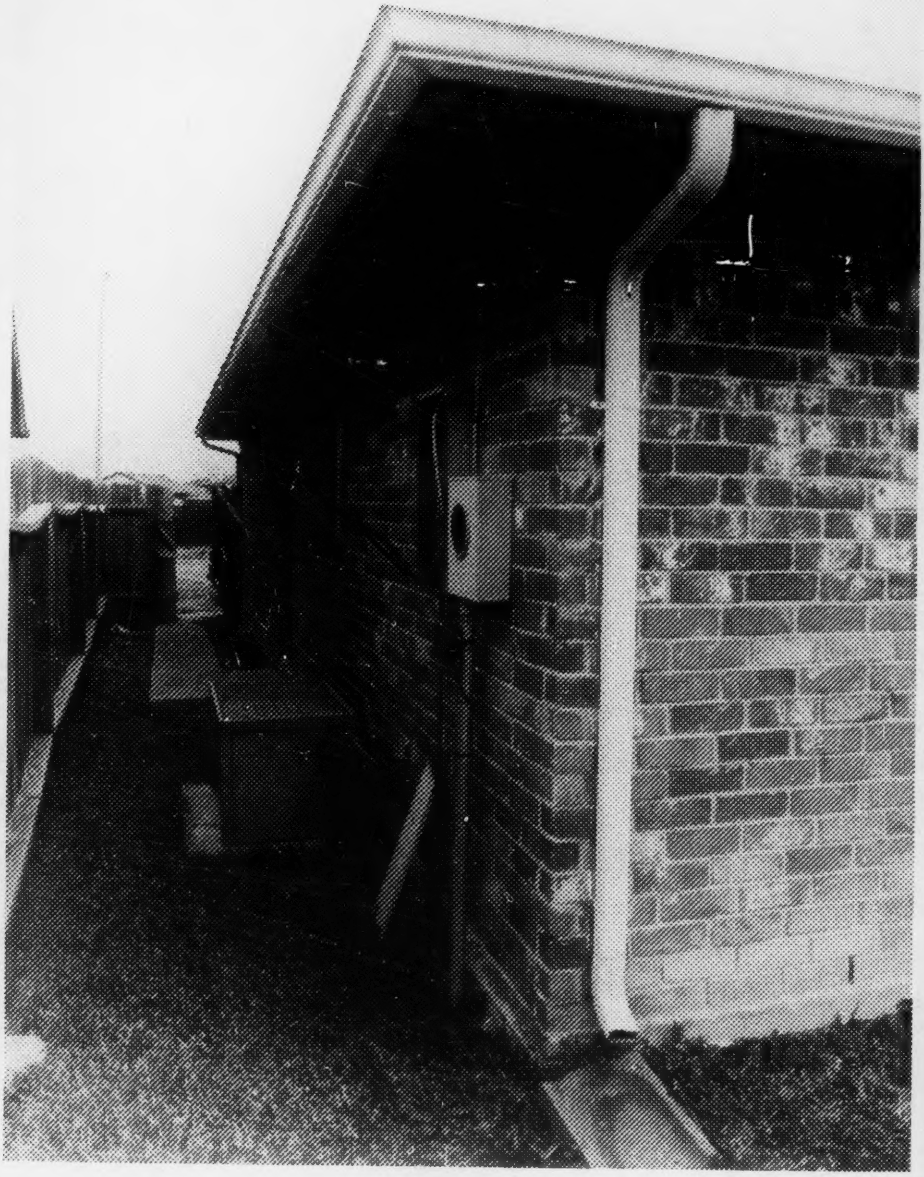
3.—Interior view of VA-owned home with appliances missing, including the kitchen sink and electrical outlet covers.



4.—Interior of VA-owned property with appliances stripped, holes in walls, and water-damaged ceiling.



5.—Exterior view showing fence in disrepair and stub of connection where air-conditioner used to be.



6.—Exterior view showing stripped wiring and circuit breaker.

7.—VA-owned property with no trespassing notice on garage door, but no "For Sale" sign.

STATEMENT OF THE HONORABLE THOMAS K. TURNAGE
ADMINISTRATOR OF VETERANS AFFAIRS

FOR PRESENTATION BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
March 4, 1988

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you today to present the Veterans Administration (VA) FY 1989 request of $30.1 billion in new budget authority to fund medical, compensation, and other programs for the Nation's 27.5 million veterans, eligible members of their families, and survivors of deceased veterans.

Included in this amount is an appropriation request for $27.9 billion, a net of $1.5 billion related to proposed legislation and $694 million in permanent authorizations and offsetting receipts. The VA's FY 1989 request represents an increase of approximately $865 million above funds appropriated in FY 1988. Budget outlays for FY 1989 are estimated at $29.5 billion. Average employment (FTEE) is expected to decrease by 2,439 from the 1988 current estimate to a level of 219,830.

I would like to take this opportunity to assure you that sufficient resources are being requested in this budget to enable the Veterans Administration to meet its goals and objectives in 1989. Quality medical care for America's disabled and needy veterans is one of this administration's highest priorities.

The budget being requested provides ample resources to furnish care to all veterans expected to apply for, and be in need of, care. No-cost care will continue to be provided to all service-disabled veterans who request it, as well as to former prisoners of war, veterans exposed to toxic substances and radiation, and all lower and middle income veterans who apply. The level of patients seeking medical care in our facilities continues to increase. It is estimated that new highs of 1.2 million inpatients and 23 million outpatients will seek VA medical treatment. As indicated by the continuing drop in length of stay for inpatients, this growth in demand is being met by the introduction of new technology which increases productivity and improves the services provided by our medical personnel.

This budget request continues to support the Administration's efforts to improve administrative procedures and to increase efficiency. The FY 89 budget contains more than $21 million for three important efforts to strengthen the Agency's infrastructure. These initiatives are: Financial Management Systems (FMS), Personnel Accounting and Integrated Data (PAID) Redesign and the Integrated Supply Management System (ISMS).

I will now summarize the VA's FY 1989 request, highlighting the budget issues for each of the major accounts.

Compensation

The 1989 budget requests $10.7 billion, under existing law, to provide compensation payments to 2.2 million veterans and 323 thousand survivors. The 1989 funding request reflects the full year impact of the 4.2 percent compensation rate increase provided to all recipients effective December 1, 1987.

Legislation is being proposed to index compensation benefits to the annual change in the Consumer Price Index. Enactment of this proposal would guarantee that all compensation recipients are provided a full and timely cost-of-living adjustment. It is currently estimated that the first such "automatic" cost-of-living adjustment, effective December 1, 1988, will be 4.2 percent and cost approximately $361 million.

Pensions

The 1989 budget submission includes an appropriation request of $3.9 billion. This amount is needed to provide payments to 1.2 million eligible recipients. The 1989 caseload estimate is 68 thousand below the 1988 estimate. The caseload reduction reflects the recent trends in this program. Although it is anticipated that the number of veterans age 65 and older is expected to increase during this decade, improvements in retirement benefits as well as other income sources will result in the continued decline in pension caseload.

The 1989 budget request includes the full year impact of the 4.2 percent cost-of-living increase provided to Improved Law recipients in December 1987, as well as an estimated 4.2 percent cost-of-living adjustment which would be effective in December 1988. The cost-of-living adjustments to eligible pension recipients, by law, are based upon the actual change in the Consumer Price Index.

Burial Benefits and Miscellaneous Assistance

In 1989, an appropriation of $145 million is requested to support operations in the Burial Benefits and Miscellaneous Assistance appropriation.

Legislation is proposed authorizing the funding of the Veterans Mortgage Life Insurance (VMLI) program in the Veterans Insurance and Indemnities appropriation rather than the Burial Benefits and Miscellaneous Assistance appropriation. The funding of the Veterans Mortgage Life Insurance program is more appropriate under the Veterans Insurance and Indemnities appropriation which funds other insurance programs. This legislation would also permit the VA to administer this program, with an expected savings in administrative costs of $100,000 each year.

Readjustment Benefits

An appropriation of $598 million is requested in 1989 to operate the programs funded by the Readjustment Benefits appropriation. This funding level will provide benefits to 159,100 veterans training under the older G. I. Bill programs, as well as basic education benefits to 41,500 veterans under the new Montgomery G. I. Bill. The basic benefits under the new program will be enhanced with a $203 million transfer, primarily from the Department of Defense, which will be used to finance veterans' supplementary benefits and reservists' benefits, to be paid to an estimated 185,300 reservists. Education benefits under the older programs will also be provided to 38,300 dependents and vocational rehabilitation to 23,200 disabled veterans.

These programs are in a transition as eligibility for the new Montgomery G. I. Bill gradually replaces eligibility for the older programs. The trainee level under the older programs is estimated to be 38 thousand fewer in 1989 than in 1988 but the trainee level under the new program is expected to be 71 thousand higher.

Loan Guaranty

An appropriation of $658 million is requested in 1989 to support operations in the Loan Guaranty Revolving Fund. This appropriation request would fund nearly $3.7 billion in obligations estimated for 1989. It is projected that 232,600 loans totaling $17.9 billion will be guaranteed in 1989.

The 1989 budget proposes to continue the sale of the VA's portfolio loans. In 1988, $300 million of portfolio loans are planned for sale without recourse. The balance of the VA's portfolio loans, nearly $561 million, would also be sold without recourse in 1989.

Legislation is proposed to allow veterans to negotiate the interest rate on VA-guaranteed mortgages, providing maximum flexibility to veterans to structure the financing of their home purchases to best meet their needs.

The Administration is continuing to propose a Credit Reform initiative that explicitly recognizes the benefit, or grant, received by a borrower in obtaining a federal guaranty for repayment of the borrower's debt and thereby obtaining credit under more favorable terms than from the private sector. It is estimated that the subsidy, or grant, of $1.3 billion is associated with the guaranty of $17.9 billion in home loans in 1989. Enactment of these initiatives will have no impact on the veterans' ability to obtain guaranteed home loans from private lenders with no down payment.

General Operating Expenses

The budget request for General Operating Expenses (GOE) is $771.3 million and 17,494 average employment for the operations of the Department of Veterans Benefits, the Department of Memorial Affairs, and the various staff functions of our Central Office. This level will allow the VA to continue to provide quality service in a timely manner. The 1989 funding request reflects the full year impact of the 1988 costs related to a 2 percent pay raise for Federal personnel and the impact in fiscal year 1989 of a 2 percent pay raise in January 1989.

The GOE request also includes a proposal to remove restrictive fiscal 1988 appropriation's language that specifies funding and employment levels for the Department of Veterans Benefits, as well as restrictions on ADP expenditures. These changes are necessary for me to manage the resources of the VA most effectively.

The Department of Veterans Benefits (DVB) is requesting $503.3 million and 12,308 FTEE in 1989 which is a decrease of $5.2 million in new budget authority and 492 FTEE from our current estimate for 1988. Included in the DVB budget is $4.0 million for the first year of a two-year Loan Guaranty Property Management Pilot program. The test project will evaluate the feasibility and cost effectiveness of contracting out the acquisition, management and resale of a portion of the VA's property inventory. The request also includes funding for a toll-free telephone service, to enhance the quality and timeliness of the Department's insurance services. The toll-free service, to begin in 1988, will save 26 FTEE in 1989.

The Department of Memorial Affairs is requesting $47.4 million and 1,203 FTEE for the management of the national cemetery system for eligible veterans, active duty military personnel and their dependents. This is an increase of $299 thousand from the 1988 level; employment is the same. It is expected that total interments will increase by 2.5 percent and graves maintained will increase by 2.7 percent. The funding level requested will support the expected increase in workload and provide for the accomplishment of maintenance and repair projects in order to maintain the national cemeteries as a fitting tribute and memorial to our Nation's veterans.

The 1989 budget request for the General Administration activity is $220.7 million, an increase of $13.4 million above 1988. Average employment will decrease by 70 FTEE in 1989. Funding is requested for a number of ADP initiatives, including continuation of the Personnel Accounting and Integrated Data System (PAID) Redesign, development of a Financial Management System, conversion of the existing telecommunications network to the new Integrated Data Communications Utility (IDCU), and continuation of the phased equipment replacement program at the Austin DPC.

Additionally, for the first time since 1986, we are requesting new budget authority to revitalize the program of Grants for the Construction of State Veterans Cemeteries. We are requesting $9 million to allow at least ten interested States to receive matching grants for the establishment, expansion, or improvement of State veterans cemeteries.

Medical Care

The Veterans Administration is requesting $10.3 billion for the Medical Care appropriation in 1989, an increase of $208 million over 1988 with an average employment level of 192,358 FTEE. This proposed budget will provide quality care for all veterans who are expected to apply for and need care, including over 1.2 million inpatients and over 23 million outpatient visits.

The budget provides for the expected effects of inflation, for the funding and staffing requirements associated with opening new facilities, for increased payroll costs, and for several new and expanded initiatives such as the Decentralized Hospital Computer Program (DHCP); PAID; initiation of an Integrated Supply Management System (ISMS); enhancement of the Medical District Initiated Peer Review Organization (MEDIPRO) and increased funding support for the State and community nursing home programs, both of which are less costly than VA nursing homes. Legislation is also being proposed to expand the authority to allow tuition reimbursements to nurses for nursing degree-related courses and to increase the State home care per diem rates by 22.9 percent, to bring the VA share of these costs back to the 25 percent level that has been an historical benchmark.

Within the additional resources provided by the Congress and approved by the President in the 1988 appropriation, the VA can continue the Homeless Veterans Treatment Program established in 1987 by Congress (P.L. 100-6) and make additional resources available to medical centers for the treatment of AIDS patients.

Medical and Prosthetic Research

The 1989 request for Medical and Prosthetic Research is $204.2 million and 4,407 FTEE, an increase of $11.3 million and a decrease of 110 FTEE.

Funding is being requested for medical research in the areas of heart disease, schizophrenia, spinal cord injury, diabetes, cancer, aging, alcoholism, and a significant increase for AIDS as well as support for related problems of Vietnam-era veterans, former prisoners of war and female veterans.

Funding is also being requested to continue support for rehabilitation research in the priority areas of prosthetics/amputations, spinal cord injury, and sensory aids. Health services research would also be continued in management and service initiated areas.

Medical Administrative And Miscellaneous Operating Expenses (MAMOE)

The 1989 request for this program is $47.9 million, an increase of $1.3 million over 1988. Staffing would be held to the 1988 level of 595 FTEE. The Health Professional Scholarship Program would be funded at the same level as 1988, adjusted for inflation. Resources are also included for the establishment of an AIDS Program Office and for additional support to monitor activations projects.

Grants For Construction Of State Extended Care Facilities

The 1989 request for this program is $42 million, an increase of $1.7 million over 1988. This funding provides for 732 new nursing home beds, 22 domiciliary beds, and nine nursing home renovation projects. These funds will allow the VA to continue shifting the mix of VA-sponsored care towards cost effective state nursing home alternatives, while expanding the total amount of nursing care available to veterans.

Construction

The 1989 request for the construction appropriations is $500.6 million. Of this amount, $367.8 million is for major projects at medical centers, regional offices and national cemeteries.

Major construction funds are proposed for fourteen sites, including four replacement and modernization projects -- two requests for construction funds for VA facilities at Atlanta, GA and Pittsburgh (Aspinwall Division), PA, and two requests for design funds in Indianapolis, IN and Newington, Conn -- as well as a nursing home care project at Tampa, FL. The budget request also includes funds for a domiciliary at Mountain Home, TN and for large clinical improvements projects at Beckley, WV, Nashville, TN, Perry Point, MD and San Antonio, TX.

Funding is also included for additional gravesite development at the Calverton National Cemetery and the relocation of the regional office at Montgomery, AL to the Medical Center grounds.

For minor construction, the 1989 request of $123.9 million represents an increase of $8 million over the FY 1988 funding level. The FY 1989 budget proposes that the ceiling for minor construction projects be increased from $2 to $3 million. Minor construction includes a General Administration limitation of $42.7 million.

In FY 1989, $9 million in new budget authority is being requested for the Parking Garage Revolving Fund to be used for the new parking garage that is planned for construction in connection with the Atlanta, Georgia clinical addition project.

Closing

Mr. Chairman, in closing, I am committed to the accomplishment of the VA's mission to provide veterans the care, support and recognition they have earned in service to this Nation. Our budget request reflects both this commitment to meeting the needs of our veterans as well as a concern for fiscal restraint. I appreciate the continued support and guidance of this Committee. This concludes my introductory statement. My staff and I will be pleased to discuss the details of this request and answer your questions and those of the Committee Members.

STATEMENT OF
THOMAS K. TURNAGE
ADMINISTRATOR OF VETERANS AFFAIRS
BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE
ON LEGISLATIVE PROPOSAL S. 2049

MARCH 4, 1988

Mr. Chairman and Members of the Committee:

I am pleased to appear before you this morning and present the views of the Veterans Administration on S. 2049, 100th Congress, the "Veterans' Home Loan Program Improvements Act of 1988." This bill would establish an independent commission to assess the VA home loan program and would amend two provisions of the law governing that program.

The proposed commission would be composed of nine voting members appointed by the Administrator of VA not later than April 30, 1988. Four members are to be selected from the housing and home finance industry, and the remaining members will be chosen from the general public and veterans service organizations. The bill calls for VA to provide such professional, technical, and clerical assistance to the commission as may be required. The bill also specifies certain ex officio members of the commission.

Within 12 months after at least five members are appointed, the commission is to submit a report to VA and the Congressional Veterans Affairs Committees. This report will evaluate and make recommendations regarding a number of aspects of the VA Loan Guaranty program.

The Administrator will then be required to submit an interim and a final report to the Congress commenting on the commission's report, describing actions taken in light of the commission's findings and recommendations and making further recommendations. Such reports are due 2 and 6 months, respectively, after the commission issues its report.

The VA home loan benefit has been and continues to be of great importance to veterans. We are aware that, in recent years, costs of operating the program have increased. Although much of these cost increases have resulted from factors beyond VA control, such as the downturn in the economy of the oil producing areas, VA would welcome a new perspective on how the program could be run more efficiently and at less costs to the taxpayers while continuing to provide a meaningful benefit to the Nation's veterans. Any recommendations produced by the proposed commission would be carefully considered.

While we do not believe that legislation is necessary to set up a commission, we do not object to section 2 of S. 2049. We recommend the following changes to section 2. The Administrator would likely appoint all nine members of the commission at the same time. If this is not possible, the first report should be due not later than 12 months after all 9 members have been appointed. Therefore, section 2(b) should be amended accordingly. We recommend that section 2(a)(3)(A) should be amended to include the President of the Government National Mortgage Association (GNMA) as an ex officio nonvoting member of the commission. Since GNMA guarantees the timely payment of principal and interest on mortgage-backed securities collateralized by VA guaranteed loans, GNMA has a direct interest in ensuring the integrity of the VA home loan program.

VA estimates that establishing this commission would result in costs of approximately $260,000 during Fiscal Years 1988-1990 while the commission is in existence.

Section 3 of S. 2049 would amend section 1816(d) of title 38 to authorize the Administrator to make vendee loans at below market interest rates if the Administrator determines that, in light of prevailing market conditions, such lower interest rates are necessary to market properties competitively, and that such action is in the bests interests of the Loan Guaranty Revolving Fund.

The Administration opposes this proposal and recommends that section 3 of S. 2049 be deleted.

Following the foreclosure of a loan guaranteed or made by VA, the Administrator frequently acquires the property that secured the loan. VA then sells these properties in an effort to recoup the Government's loss under the guaranty. In some cases, the VA provides seller financing, commonly known as a "vendee loan." VA normally makes vendee loans at the interest rate established for VA guaranteed home loans. This rate is usually slightly below the current market rate.

Vendee loans are not a benefit program for veterans. Rather, they are part of a salvage operation to generate funds for the Loan Guaranty Revolving Fund. VA generally believes that vendee borrowers should not receive special benefits from the taxpayers not given to veterans using their earned housing benefits. Therefore, VA considers it proper that vendee borrowers should pay market interest rates on their loans.

In some areas where there is a surplus of homes for sale and a depressed economy; e.g., in the Houston, Texas, area, VA must use various techniques to expedite sales in order to compete with other major home sellers.

The VA believes that the best approach to achieve this is to reduce the selling price of the home. In fact, we are already doing just that. This results in less cost to the Government in the long run than offering below market rate financing by eliminating the risk of having to take back the home at some future time.

In general the Administration would prefer to minimize the use of the vendee loans and other types of seller financing. Direct financing runs the risk of defaults and further resale efforts, costs generally not reflected in the sales price. In addition, direct financing puts the VA in the loan servicing business--an activity more appropriately performed by the private sector.

Section 4 of S. 2049 would make section 1817A applicable to vendee loans. Although VA supports the concept behind this amendment, we must oppose this specific provision.

The recently enacted Public Law 100-198 added a new section 1817A to title 38. This new section requires that, before a veteran may transfer title to a property securing a VA guaranteed, insured, or direct housing loan, the new purchaser be approved from a credit standpoint unless the loan will be paid in full at closing. This does not apply to vendee loans.

VA believes it is proper that vendee loans be subject to similar restrictions on assumability now applicable to new guaranteed loans. Even absent such an amendment, VA is considering administratively placing such restrictions on vendee loans.

We note that section 1817A of title 38 mandates certain administrative procedures that VA does not consider appropriate for vendee loans. Under section 1817A, a veteran selling a home subject to an existing VA loan must report the proposed sale. If the holder is an approved VA automatic lender, the holder must initially determine whether the purchaser is credit worthy. If the holder is not an automatic lender, VA must make this determination. In either event, if the purchaser is not approved, the parties may appeal to VA for reconsideration.

As we noted above, vendee loans are not a benefits program, and we do not believe the appellate rights provided to veterans under section 1817A are appropriate for vendee buyers. This is especially true if VA sells vendee loans without recourse. Once a loan is sold in this manner, there should be no further VA involvement. VA staff time should not be diverted from serving veterans to conducting two reviews of a proposed assumption of a loan already sold without recourse. Further, making the assumption of a loan subject to the approval of VA rather than the loan holder could make vendee loans less attractive to investors and reduce the yield of nonrecourse loan sales.

Accordingly, we recommend in lieu of section 4 of S. 2049 that section 1816(d) of title 38 be amended to make vendee loans due on sale (not assumable) unless VA, or the holder if the loan is sold without recourse, approves the transfer. We would additionally recommend that this amendment apply to loans closed pursuant to offers accepted by VA after April 15, 1988, rather than to any loans closed after such date as now provided in S. 2049.

In addition, we note that Public Law 100-198 amended section 1829 of title 38, United States Code, to impose a fee of 1/2 of 1 percent of the loan balance on persons assuming a loan to which section 1817A applies. The amendment made by section 4 of S. 2049 would also have the effect of imposing this fee on persons assuming VA vendee loans. VA considers it equitable that persons assuming vendee loans be subject to similar fees as persons assuming guaranteed home loans. We question, however, whether the Government should collect this fee on a loan which has been sold without recourse since VA would no longer have any interest or control over that loan.

VA estimates that section 4 of S. 2049 would result in some benefits savings. However, we do not at the present time collect data on the assumption of vendee loans. Therefore, we cannot quantify the level of expected savings.

This concludes my testimony, Mr. Chairman. I will be pleased to answer any questions you or the members of this Committee may have.

STATEMENT OF DONALD E. SHASTEEN
ASSISTANT SECRETARY FOR
VETERANS' EMPLOYMENT AND TRAINING
SENATE VETERANS AFFAIRS COMMITTEE
FISCAL YEAR 1989 BUDGET REQUEST

March 4, 1988

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to discuss with you the Fiscal Year 1989 Department of Labor Budget proposal as it pertains to veterans' employment and training programs.

Before I provide details about the FY 1989 budget, I would like to mention a few of the accomplishments of the Veterans' Employment and Training Service (VETS) in FY 1987.

The Vietnam-era veterans' unemployment rate of 5.1 percent in January has continued to improve since January of 1987 when it was 6.0 percent. Of the more than 2.5 million veteran applicants to the State Job Service agencies, 560,000 veterans were placed in jobs or obtained employment as a result of one of our services rendered. More than 250,000 of those were Vietnam-era veterans. Through cooperation of the Veterans Administration, approximately 11,000 veterans were placed in jobs in FY 1987 through the Veterans' Job Training Act (VJTA) program bringing the total placements to 54,755. Finally, under Title IV-C of the Job Training Partnership Act (JTPA) an additional 23,000 veterans were enrolled in training and 7,500 were placed in jobs.

We believe improvements in the delivery of services have contributed to this progress. One of the major contributors to the better service delivery has been the training provided by the National Veterans Training Institute located in Denver, Colorado. Between January and September 1987, 1,200 Local Veterans Employment Representatives, Disabled Veterans' Outreach Personnel and other employment service staff have received training which emphasized the "whole person" philosophy on how to serve veterans.

In FY 1988, VETS is continuing its emphasis on quality services to veterans, placing more long-term and hard-to-reach unemployed veterans and increasing the effectiveness of VETS' management. We are scheduled to complete the development and pilot testing of VETS' integrated information management system (VIMS) in September. Nationwide implementation will be accomplished during the first quarter of FY 1989. We are excited about the enhanced management information that VIMS will provide to VETS, enabling the agency to become even more productive in its mission to place veterans in jobs. We have scheduled a National Forum entitled "Workforce 2000 and America's Veterans" to be held on April 19-21, 1988, to provide the public the opportunity to participate in a colloquy concerning the employment and training needs of veterans, the institutions and systems designed to serve those needs and the Nation's ability to ensure that veterans are able to participate successfully in a rapidly changing labor market.

VETS is expanding on the success of its Jobs for Homeless Veterans (JHV) pilot where more than 5,000 homeless veterans were reached, resulting in 1,300 job placements. Sixty percent of these veterans are still on the job after six months. Refining the JHV model, we expect to reach over 19,000 additional homeless veterans this year.

We are expanding NVTI through a three-phased program to provide guidance and job counseling training to up to 600 DVOPs and LVERs. We are working diligently to improve the approval process for IV-C grant applications for PY 1988. The successful pilot of the Army Transition Project at Fort Bragg will enable us to expand this joint DOL/Army project to four more sites this year. In March, Federal contractors will be notified of their need to report relevant veterans' employment data for their companies. The information gathered through this reporting process will enable our field staff, working closely with the Employment Service, to ensure that veterans are receiving priority consideration for contractor jobs.

Our budget request for Fiscal Year 1988 is $142.4 million. Included in this amount is $127.3 million for grants-to-States of which $73.8 million is for DVOPs and $53.4 million is for LVERs. The funding is for 276 Federal positions and 3,424 State agency positions allocated through grants-to-States.

The agency's request for DVOP and LVER funding is based upon the intention to maintain DVOP staff levels in accordance with the staffing formula set forth in Section 2003 A of Title 38 U.S.C.. DVOP staff provide direct service to veterans, as prescribed in the United States Code, and one position is allocated for each 5,300 Vietnam-era and disabled veterans residing in each State. These specialists are mandated by law to provide employment and employability development services to eligible veterans, with a priority to provide these services to the most disadvantaged veterans, e.g., the disabled and Vietnam-era veterans with severe barriers to employment.

LVER staffing will be reduced due to a demonstrated lack of need. Local Veterans' Employment Representatives do not provide services directly to veterans to the degree that DVOP staff do, but instead are responsible for functional supervision of local office services to veterans. Since State agencies are exceeding the quantitative performance standards, there is not the need for as much supervision as is now provided. The agency will provide funding for 213 fewer LVER staff years in FY 1989 than provided by formula. This will be effected primarily by reducing positions from full-time to part-time in an estimated 450 local offices. The actual number affected will, of course, be dependent upon the actual position costs for FY 1989.

Emphasis will continue in FY 1989 on DVOP and LVER involvement in intensive job development counseling and placement activity. In addition, these specialists will continue their efforts in coordination with service providers under the JTPA, community-based service organizations, and other supportive service agencies to ensure the provision of comprehensive services to veterans under the case manager/whole person concept.

For the JTPA Title IV-C program administered by the agency, the competitive grant application system for award of grants to the State and/or Service Delivery Areas will continue. The budget amount for Veterans' Employment Programs under JTPA, Title IV, Part C, is $9.7 million for FY 1989, the funding level provided by the formula contained in the Job Training Partnership Act. As I stated earlier, we expect that we will continue to have an effective program due to the competitive structure and the preference given to those applicants that match or exceed the grant amount with local funds.

In closing, I would like to thank you for this opportunity to discuss the FY 1989 budget and how it affects veterans' programs. I am confident that with the requested budget we can continue progress toward secure employment for all veterans and reservists, who with their dependents comprise approximately half of our nation's populace. I will be pleased to answer any questions you may have.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

JAMES N. MAGILL, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

WITH RESPECT TO

FISCAL YEAR '89 VETERANS ADMINISTRATION BUDGET PROPOSAL

WASHINGTON, D. C. MARCH 3, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Mr. Chairman, thank you for the opportunity to present the views of the Veterans of Foreign Wars with respect to the President's proposed budget for Fiscal Year 1989. We are appreciative of this Committee for holding this hearing and demonstrating its continuing concern for our nation's veterans.

Once again, the Veterans of Foreign Wars is proud to have joined AMVETS, Disabled American Veterans and Paralyzed Veterans of America in presenting to the Congress an independent budget for the Veterans Administration. Unlike last year, the FY '89 Independent Budget encompasses all Veterans Administration programs and, as the name implies, is independent of the Office of Management and Budget's (OMB) influence. Inasmuch as the formation of the Independent Budget requires unanimous approval, the figures contained in the Independent Budget have the total support of the VFW. These figures will allow the Veterans Administration to provide, at a minimum, current services. Due to time constraint, I would like to specifically discuss the construction aspect of the Independent Budget followed by a general commentary on the President's proposal.

As in other VA programs, need forms the basis for determining the appropriate level of funding for construction. However, in this, our first attempt to develop a VA construction budget, we found the VA does not have the information required to formulate a needs-based construction budget. In formulating a budget, an inventory basis should include the recognition of maintenance and repair needs of existing structures, systems and equipment used by medical centers; shortfalls in existing space, systems and equipment needed for the current activities of medical centers; and shortfalls in the space, systems and equipment that will be required by future medical center operations. The VA does not have an adequate inventory of construction needs, and the focus of the recently completed Capital Facilities Study is too narrow to serve as an inventory in this sense. Currently, the VA's construction priority-setting is limited to choosing among projects submitted by medical centers in the Five Year Facility Plan. These projects may or may not address the needs of the VA on the whole as the VA sees them on a priority basis. What is actually happening is the VA does little more than pick its projects from 172 uncoordinated "laundry lists." The current prioritization method simply places requested projects in priority order and does not address true priority need.

The absence of a sound basis for establishing construction priorities is but one of the major deficiencies in the VA construction process identified by careful studies the VA itself commissioned. These include excessive time required for projects--typically ten years from conception to completion; costs that are sometimes excessive; and, the inability to deal systematically with problems in the construction process.

In addressing the VA's construction needs, our most urgent concern is for the VA to develop a construction process that works well. We envision a process that completes projects more rapidly; chooses projects based on need and on a sound system for setting priorities; provides projects that adequately meet medical centers needs; is economical; and, catches problems quickly before they become severe through a system of standards and indicators for monitoring on-going performance along important dimensions such as quality, timeliness and cost.

An immediate task for the agency in meeting these goals is to develop a sound Facility Development Planning Process (FDPP). The successful completion of the pilot test program for the FDPP, involving four VA medical centers, is a prerequisite to implementing this new process system-wide. Once a proper Facility Development Planning Process has been established, the foundations necessary for developing a needs-based construction budget will be in place.

Because neither we nor the VA knows what construction needs are and what construction priorities should be, we are recommending very low total construction appropriations for FY 1989, appropriations totaling $541 million. This is close to $225 million, or almost 30 percent, below the record construction obligations of $766 million achieved in FY '87, and is only $18 million above the very tight appropriation total enacted for FY '88. Within this constrained total, we recommend a relatively large amount for minor construction in order to provide for the updating and repairing of VA facilities, most of which are now quite old.

We believe the true total of construction needs may be a good deal higher than the total appropriation of $541 million we are recommending. For example: the VA is contracting for only two replacement hospitals or top-to-bottom renovations of hospitals each year, which means it is on an absurdly long 86-year replacement cycle for its 172 hospitals. However, both the current federal budget deficit and the VA's lack of the basic information it needs for construction planning support our endorsement of the conservative appropriations.

Our construction budget also reflects the re-establishment of a reasonable strategy for locating cemeteries in the National Cemetery System. At OMB's insistence, the VA has for years maintained that the system need have no more than one national cemetery with available burial space in each of the ten federal regions. This means extremely long travel distances for widows and children of veterans honored by burial in a national cemetery. Realistically, it deprives many veterans of an option of burial in a national cemetery.

The four major veteran's organizations are unanimous in agreeing that a true National Cemetery System that offers veterans what it appears to promise must meet two criteria: (1) It must have a national cemetery with available grave space in every state. (Eight states do not now have open national cemeteries.) and (2) There must be a national cemetery with available grave space within reasonable distance of the nation's major veteran population centers. This budget starts the process of making the National Cemetery System meet these two criteria.

With respect to specific funding levels, we recommend $368 million be appropriated for major construction in FY 1989, $35 million less than in FY '88, and almost $220 million less than was obligated in FY '87. We recommend this reduction in part because the VA lacks the information and processes to evaluate construction needs and in part because of general federal budget constraints.

Within the $368 million total, we recommend $40 million for the advance planning fund and design fund. These funds permit projects to move continuously through the planning and design stages of the construction process rather than suffering lengthy interruptions while waiting for appropriations. As such, they deal with one of the major problems that has made VA projects take overly long to complete. The $40 million recommended for these funds substantially exceeds the amount allocated to them in past years. In funding them generously, we are seeking to accelerate the construction process. More importantly, we are ensuring a large dollar volume of projects "in the pipeline." Underfunding in this area leads to a choking off of projects by constricting the front-end planning and design stages. Our strategy of generous funding will permit a rapid expansion of the overall volume of major construction projects once VA priority-setting improves and the deficit declines.

We have specifically designated $30 million for construction of new VA nursing homes. This amount will fund four nursing homes with 120 beds each. The aging of the veteran population requires this rate of addition of new VA nursing homes each year throughout the 1990s.

Finally, our recommendations for the major construction appropriation include $3 million for the acquisition of land for a new national cemetery in a state that currently has none. We recommend the addition of two new national cemeteries with available grave space each year until the National Cemetery System meets our two goals. We believe that one new cemetery each year can be obtained by donation from a state, and have budgeted for purchase of land for a second. The remaining $295 million of the major construction appropriation should be devoted to other medical construction projects.

With respect to minor construction, we recommend $169 million for FY 1989. The minor construction appropriation funds smaller projects, mostly ones devoted to keeping VA facilities in repair and up-to-date. Our recommendation of $169 million for this appropriation for FY 1989 is an increase of $53 million from the FY '88 level. We recommend this increase because of the importance of updating and repairing VA facilities. The largest number of VA facilities date from the

1950s, which means they are at an age when needs for updating and for repair and replacement are high. Moreover, the recommended $169 million for FY 1989 is actually slightly below the obligation level achieved in FY '87.

Most of the total minor construction appropriation--$100 million to be specific--should be spent on medical construction. Of these medical funds, we recommend that $20 million be set aside for conversion of medical center space to nursing home use, and be avilable only for this purpose. Modest amounts of the minor construction appropriation pay for construction projects in the VA's regional offices and its existing national cemeteries. Based on recent years' spending patterns, we estimate that $5 million and $10 million, respectively, are appropriate for these purposes. Finally, we recommend that $54 million of minor construction funds be spent for the VA staff that oversees the construction process. This consists primarily of the Office of Facilities, and we recommend continuation of the current staffing level.

With respect to the President's FY 1989 budget proposal, at first glance, the Administration's proposed $30.1 billion VA budget would at least seem to be in keeping with the objective of providing veterans with a current services budget. But a more thorough review reveals this spending plan to be both painfully inadequate and far below what is even necessary to keep pace with inflation. The deception lies in the fact that even though the requested budget authority is larger than the current year's authority, it includes $1.6 billion for expenditures from VA managed trust funds which do not, in fact, require appropriations. Furthermore, $1.5 billion is included in the budget for *proposed* legislation of which about $1.3 billion is to be used to fund the Administration's so-called "credit reform" plan.

This plan is nothing other than a scheme whereby the Congress will be required to appropriate money equal to the estimated subsidy value (the additional amount OMB claims a VA loan is worth to an individual) of the loans it makes or guarantees. Along with using actual appropriation dollars to cover the OMB estimated paper losses, once the appropriation is used up, the VA will not be allowed to guarantee any more loans without an additional appropriation. This would effectively cap the program and potentially prevent untold thousands of veterans from getting VA loan. Also, the money earmarked for the credit reform scheme inflates the VA budget and makes it appear to be much larger than it actually is. So, when the misleading numbers and deceptive rhetoric are washed away, we are faced with a VA budget which is woefully inadequate to the task of caring for this nation's veterans. For example: overall health care funding would increase by only two percent over the FY '88 level.

The Administration's FY 1989 budget calls for the elimination of 2,439 VA employees. At a time when the demands on the VA health-care system is rapidly on the rise, 1,782 health-care employees would be eliminated. The Department of Veterans Benefits would be forced to eliminate 492 employees including 248 regional office claims adjudicators. Inconceivably, in spite of the fact that over the past five years the VA has struggled to handle claims in a prompt manner, the Administration would eliminate over seven percent of the already overtaxed regional office claims work force.

The VA Home Loan Program, one of the most beneficial veterans' programs in existence, would also fall under the budget cutter's ax. Even though the current strained economic climate has resulted in the loan guaranty program suffering a dramatic increase in foreclosures and in the amount of time foreclosed properties must be managed and maintained by the VA, the FY 1989 budget calls for a reduction of 75 loan guaranty personnel.

The entire Veterans Administration falls under the Administration's proposed budgetary assault. Despite a demonstrated need for an additional 3,500 nursing home beds by 1992, the VA is slated to receive only 120 new beds in FY 1989. In an area of major concern to this nation's Vietnam veterans, the Veterans Administration Vet Center Program would suffer a reduction of 79 full-time employees and a budget cut of $4.7 million. Additionally, the Administration has declined to seek additional funding for the "Veterans' Job Training Act". This invaluable employment program has placed almost 60,000 Vietnam-era and Korean-conflict veterans into jobs and is now just about completely out of money. Of major concern to all but particularly to older veterans, there will be more than a $34 million reduction in money available to purchase new medical equipment; and the funding for facility construction, modernization and renovation would be reduced by $22 million.

As callous as these proposals are, they really should not come as a surprise. We have all seen this sort of thing before. Once again the President's Office of Management and Budget bureaucrats are placing their cost-cutting schemes ahead of this nation's obligation to its veterans. They are simply refusing to provide for the legitimate needs of our veterans' programs. Just when the VA is suffering a crucial shortage of health-care personnel, OMB is proposing that a large number be eliminated. At this time when the VA's physical plant should be modernized and expanded, OMB is deliberately disregarding equipment and facility requirements. Dollar over duty--plain and simple.

Mr. Chairman, among the topics under consideration today, you have asked for the VFW's views on appropriate ways to deal with the substantial increases in the cost of the VA Home Loan Guaranty Program over the past ten years as well as for our opinion of a bill introduced by yourself and the Ranking Member of the Senate Veterans' Affairs Committee, Senator Murkowski--S. 2049, the proposed "Veterans' Home Loan Program Improvements Act of 1988." We are pleased to comply with this request.

It is our conviction that the VA Home Loan Program is first and foremost a veteran's program. As such, it should not always be expected to operate at a profit or, for that matter, break even. That is simply not in the nature of VA programs. These programs almost never make money, although through the majority of its existence, the VA Home Loan Program has done just that.

The VFW does, of course, firmly support various initiatives which would serve to enhance the effectiveness and efficiency of the program. Because, as we see it, such initiatives serve to achieve the very purpose for which the program exists--namely, enabling veterans to achieve the American dream of homeownership.

In this regard, the VFW heartily applauds the efforts of the Senate and House Veterans' Affairs Committees on the formulation of the most comprehensive VA Home Loan Program legislation to be enacted into law in recent history--Public Law 100-198, the "Veterans' Housing Rehabilitation and Program Improvement Act of 1987," which we believe is contributing toward improving the operation and financial solvency of the VA Home Loan Program. Even so, due to certain unfortunate economic factors prevalent in the national economy, foreclosures and program costs are increasing.

Although many of the VA Home Loan Program's problems are due to circumstances beyond its control, there is also room for improvement in its operation. With respect to reducing program cost there are, we believe, two main objectives to be achieved--reducing the number of foreclosures and improving the handling of defaulted properties by the VA.

With respect to reducing foreclosures, we believe veterans should be extended periods of grace and receive priority assistance from the VA in order to make their mortgage payments and keep their own homes. Both the veterans and, ultimately, the VA Home Loan Guaranty Program would benefit.

We also believe considerable improvement can be made in the manner in which defaulted properties are handled. It is of paramount importance to reduce the amount of time real property is held by the VA. Real property is very expensive to hold since the VA must pay taxes on all such property in its inventory as well as securing it against vandalism and weather. Although the current decline in interest rates should increase VA property sales, new and more aggressive marketing techniques could further enhance such activity.

Another means of enhancing the VA Home Loan Guaranty Program's assets could be by increasing its portfolio of vendee loans--since they generate collections in the form of principle and interest payments. Additionally, funds generated by asset sales enter the Loan Guaranty Revolving Fund (LGRF) as offsetting collections, which offset obligations and, correspondingly, outlays.

At this juncture, we would like to address S. 2049--legislation designed to improve the program's operation along with reducing its costs. The Veterans of Foreign Wars is, of course, highly supportive of these goals and will do everything in its power to contribute to their realization.

Section 2 of S. 2049 would establish an independent national commission to study the causes of increasing costs in foreclosures in the Home Loan Guaranty Program. The Commission would be comprised of nine individuals with demonstrated expertise in various germane areas and the Commission would be required to issue a report after one year with its findings and recommendations. The VFW supports this proposal.

Section 3 of this bill would require the VA to offer interest rates for vendee loans which are lower than the prevailing mortgage market interest rates in given areas when market conditions dictate that a lower interest rate is necessary for the VA to successfully sell certain properties. In light of the fact that this would only be done in the interest of the long-term stability and solvency of the loan guaranty program and, inasmuch as the VFW recognizes the great importance of reducing the amount time real properties are held by the VA, we support this proposal.

Section 4 of S. 2049 would extend the credit worthiness requirements which are applied to VA guaranteed loans to VA vendee loans. Since this would be in the best interest of both the Home Loan Program and involved veterans, we support this proposal. Certainly, the very high incidence of default on VA vendee loans in itself warrants the application of credit worthiness requirements on individuals taking advantage of these loans. The VFW also supports the proposed imposition of a .5 percent user fee on vendee loans. In this way, non-veterans utilizing the VA Home Loan Program in this fashion would be required to make a small payment for the privilege.

In addition to our testimony on the VA budget and the VA Home Loan Guaranty Program, the VFW was asked to present our thoughts on four additional issues.

First, the effects of the significant reduction in the Department of Veterans Benefits staffing over the past several years. In May of last year, the VFW conducted a survey of our Department Service Officers to illicit their opinion of Regional Office Adjudication activity performance. The results from our survey were abundantly clear. The Veterans Administration is not providing an adequate level of staffing to properly adjudicate claims; and, as a result, it is taking an increasingly long time to process claims. These long delays coupled with increasing workloads are causing fatique in the adjudication system and the veteran is suffering.

A summary of the information provided by our Service Officers suggests that there are three main reasons for VARO Adjudication Division deterioration: (1) the Veterans Administration is not providing sufficient staffing, (2) training provided by the VA is either insufficient or not properly targeted and (3) increasing workloads. The problem mix varies from station to station. Some VAROs have adequate staffing; but, because of the workload, they are unable to spend the time to properly train the staff. Some VAROs have a well-trained staff but not enough personnel to handle the workload. Veterans are not adequately served when they must wait months for a simple decision nor are veterans properly served if there is any question as to the quality of that decision.

Our VFW Service Officers overwhelmingly suggest that sufficient staffing and training be provided at every VARO to ensure that every adjudication activity is able to provide the veterans they serve with a timely response and a quality product. Therefore, the VFW concludes that the significant reductions in Department of Veterans Benefits (DVB) over the past several years have seriously undermined the effectiveness of the system. If further cuts, as indicated by the proposed Fiscal Year 1989 budget are allowed to happen, we envision further deterioration. VFW Department Service Officers overwhelmingly agree that further cutbacks in Full-time Employee Equivalent (FTEE) will have a most adverse effect on the adjudicative process, causing ever increasing delays and threatening the quality of decisions. The VFW is on record opposing the past FTEE cuts in DVB and we will not accept any further cuts. It is time to rebuild DVB's adjudication division; further cuts will certainly result in its destruction.

Second, the adequacy of VA efforts to develop and implement health-care programs providing adequate alternatives to institutionalization, in light of the rapid aging of the veteran population. The VFW is well aware of the increasing need for health-care programs designed to meet the demand of our rapidly aging veteran population. We encourage and support any effort to focus on the plight of the elderly and believe that everything possible should be done to meet their needs.

The Veterans Administration has established programs specifically designed to meet these needs. The VA has increased the number of its non-institutionalized extended care programs and diversified their approach. These programs are designed to facilitate independent living by making available appropriate sustaining medical and social services. These programs include respite care, adult day health care, hospital-based home care, community residential care, and Geriatric Research Education and Clinical Centers (GRECCs).

We are favorably encouraged by the Veterans Administration's efforts to address this need. They are doing a commendable job of developing and implementing these programs considering the limited resources available to fund this activity. The VA is doing a good job of developing and implementing health-care programs, but, adequate funding must be provided to allow these programs to grow as the aging veteran numbers continue to increase.

Third, the effect of the VA health-care system on the enactment of the income limitation/copayment and health-insurance reimbursement provisions enacted in sections 19011 and 19013 of the "Consolidated Omnibus Budget Reconciliation Act of 1985," Public Law 99-272. The VFW has always maintained those veterans most in need of health care should be entitled to full treatment. The enactment of Public Law 99-272 required the VA to provide health care to the most needy of the veteran population as well as those suffering from a service-connected disability. Approximately 96 percent of the veterans applying for VA health care meet the requirements for category "A" and are now entitled by law to VA health care. Because of the very small percentage of category "B" and "C" patients, we have very little documentation to accurately comment on the copayment provisions of Public Law 99-272.

We must also reserve judgement on health insurance reimbursement provisions inasmuch as conclusive data is not yet available. The VFW will continue to monitor these provisions and as soon as sufficient data is available we will be more than happy to share our findings with the Committee.

Finally, we were asked to comment on the development and management of the VA's automated data processing system. We are pleased the Office of Technology Assessment has recommended that Congress release $40 million for the Decentralized Hospital Computer Program system. For the most part, we have not heard complaints from the field with respect to the automated data processing system and it appears at this time all is running smoothly.

Again, the VFW is closely monitoring the VA's progress in this area and we will welcome the opportunity for future comment as this crucial aspect of health care continues to come on line.

This concludes my statement, Mr. Chairman, and I will be happy to respond to any questions you or the Committee members may have. Thank you.

STATEMENT OF
JESSE BROWN
DEPUTY NATIONAL SERVICE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
OF THE
UNITED STATES SENATE
March 4, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans and its Ladies' Auxiliary, may I say how very much we appreciate the opportunity to appear here today.

Mr. Chairman, our testimony has been requested relating to the Fiscal Year 1989 budget proposal for the Veterans Administration; S. 2049, the proposed "Veterans' Home Loan Program Improvements Act of 1988;" as well as a variety of questions concerning the VA Home Loan Guaranty Program, staffing reductions in the Department of Veterans Benefits, VA automated data processing systems, the effect of income-limitation/copayment and health-insurance reimbursement on the VA health care system, VA efforts concerning alternatives to institutionalization and a proposed one-time flat rate increase in Dependency and Indemnity Compensation (DIC).

VETERANS ADMINISTRATION FISCAL YEAR 1989 PROPOSED BUDGET

As you know, Mr. Chairman, on behalf of the Veterans Administration, the President is requesting $27.9 billion -- an increase of $855 million over Fiscal Year 1988 funding levels -- to administer the various programs and services for this nation's 78.5 million veterans, their family members and survivors of deceased veterans in Fiscal Year 1989.

Medical Care

The Fiscal Year 1989 budget request for the Department of Medicine and Surgery (DM&S) calls for overall budget authority in the VA's medical care account of $10.3 billion -- an increase of $208 million over the Fiscal Year 1988 level.

Mr. Chairman, in our view, notwithstanding the proposed funding increase, the VA's ability to provide quality and timely health care to America's entitled veterans will continue to erode should the Administration's proposal for the medical care account be enacted.

This is so in view of the fact that $114 million of the proposed increase in the medical care account has been requested specifically to absorb the cost of payroll increases, including the costs of the 1989 civilian pay raise and the Federal Employees' Retirement System (FERS).

According to the budget documents we have been provided, the Administration's budget request proposes, among other things:

* reduction of $4.7 million and 79 FTEE in the VA's readjustment counseling program;

* an exaggerated staff to patient ratio adjustment resulting in the loss of 1,684 FTEE and $55.6 million;

* 135 fewer FTEE and a reduction of $6.4 million for the Decentralized Hospital Computer Program; and

* a projected 1% productivity increase (in reality an arbitrary 1% budgetary reduction) estimated to save $65 million and reduce FTEE by 1,944 in Fiscal Year 1989.

As you may have noted, Mr. Chairman, an additional 1,882 FTEE are being proposed to staff new activations in Fiscal Year 1989. However, the cumulative effect of the Agency's average medical care employment in Fiscal Year 1989 will be a net reduction of 1,782 FTEE.

According to all estimates, the Administration's proposed DM&S budget for Fiscal Year 1989 falls at least $370 million short of the minimum funding level necessary simply to maintain veterans' health care services at current Fiscal Year 1988 levels.

Mr. Chairman, we encourage you and members of the Committee to carefully scrutinize the Fiscal Year 1989 funding levels proposed for the VA medical care account. We believe such scrutiny will lead you to propose a realistic and meaningful funding level that will, at the very least, enable the Agency to provide health care services to those veterans so entitled.

In this respect, Mr. Chairman, we would further urge you to carefully consider the recommendations and funding levels as contained in the Independent Budget for Veterans which has been provided to the Committee. This budget document represents the cumulative and cooperative efforts of several major veterans' service organizations (AMVETS, DAV, PVA and VFW) and represents, in our view, a realistic funding level that would allow the Agency to carry out its mandated mission of providing health care services to disabled veterans.

Medical and Prosthetic Research

Mr. Chairman, the Administration's Fiscal Year 1989 medical and prosthetic research request is $204.2 million ($11 million above the Fiscal Year 1988 funded level).

The DAV has, and continues to be, fully supportive of the VA's combined research efforts. It is discouraging, however, to continue to witness the large disparity in the funding levels for medical research ($175.8 million) and that requested for prosthetic research ($18.9 million) and it is truly disheartening that the current request for prosthetic research has been reduced by $1.5 million from the 1988 level. The DAV supports the mission of Health Services Research and Development and we are encouraged by and support the funding requested.

Construction

The VA's Fiscal Year 1989 construction request totals $500.6 million. Mr. Chairman, while we support full funding of the VA's request for construction purposes, we are nevertheless concerned over the VA's effort to meet the pressing demands on the health care system, especially since the proposed level of funding falls $22 million below the Fiscal Year 1988 level.

As you know, greater numbers of elderly veterans are seeking nursing home care from the VA, yet, in this construction budget proposal only one (1) new 120 bed nursing home care unit has been requested. Additionally, we are concerned that this construction budget request fails to recognize the replacement and modernization needs of the VA's many aging health care facilities. In this regard, Mr. Chairman, we urge the Committee to favorably consider the construction recommendations of the Independent Budget.

We have noted and support the VA's proposal to convert 289 hospital to nursing home care beds. However, in so doing, we would urge the Administration to move swiftly in the conversion process and, when and where indicated, identify additional acute care beds that may realistically be converted to nursing home care. In doing so, we trust an appropriate balance will be maintained to meet the acute, intermediate and long-term health care needs of our rapidly aging veteran population.

Department of Veterans Benefits

The VA's Fiscal Year 1989 request for the Department of Veterans Benefits (DVB) totals $503 million, a decrease of $5.2 million from the Fiscal Year 1988 level. We are seriously concerned, however, that average employment in DVB will decrease by some 492 FTEE.

Mr. Chairman, since 1979 nearly 5,300 employees have been slashed from DVB and, today, each regional office is barely staffed at minimum levels to adequately respond to the workload and demands for services placed upon it from veterans and their dependents.

We have very grave concerns about the VA's ability to continue to provide needed services to beneficiaries and the proposal to reduce average employment will only serve to further curtail the services that the VA is charged to provide.

In this regard, Mr. Chairman, the DAV strongly urges the Committee to adopt the funding level recommended for DVB by the Independent Budget for Veterans.

PROPOSED LEGISLATION

The Administration's Fiscal Year 1989 budget request proposes legislation that would provide for (1) an increase of 4.2% in the rates of disability compensation and Dependency and Indemnity Compensation (DIC), effective December 1, 1988; (2) index compensation benefits to the annual change in the Consumer Price Index; (3) change current law to provide for the VA plot allowance to be paid only in the case of those veterans who were either in receipt of VA compensation or pension benefits at the time of death or to wartime veterans who died without sufficient resources for burial; (4) amend current law to permit lender/borrower negotiated interest rates on VA guaranteed home loans; (5) transfer the administration of the Veterans Mortgage Life Insurance (VMLI) Program to the VA; (6) repeal authority for the Education Loan Fund; (7) increase the per diem paid to state veterans homes; (8) expand the authority to allow tuition reimbursement to nurses for degree related courses; and (9) government-wide credit reform that will identify the grant equivalent subsidy of all federal credit programs -- directly impacting on the VA Home Loan Guaranty Program.

Mr. Chairman, the DAV is pleased with the Administration's proposed cost of living adjustment in the rates of disability compensation and DIC benefits -- in recognition of the special consideration service-connected disabled veterans and their survivors should be given.

Accordingly, the DAV strongly supports the enactment of legislation that would provide disability compensation and DIC recipients with a cost of living adjustment in line with the rise in the Consumer Price Index, effective December 1, 1988.

As strongly as we support this rate increase, we adamantly oppose any effort to index compensation benefits to the annual change in the Consumer Price Index.

Mr. Chairman, in our view, the many and complex benefit programs administered by the VA deserve and, in fact, require continuous oversight scrutiny by the Congress and, specifically, the Veterans Affairs Committees.

Any attempt to index compensation benefits is, in our view, an attempt to diminish the oversight functions of the Congress. Such a result would not be in the best interest of the VA or, more importantly, the beneficiaries they are mandated to serve.

Additionally, we view the initiative to "standardize" the eligibility for the VA plot allowance as simply another example of an Administration effort to repeal an entitlement that has been bought and paid for by honorably discharged veterans. Accordingly, the DAV opposes this legislative proposal.

Mr. Chairman, the Administration is again proposing to remove the Administrator's authority to set the interest rates on VA guaranteed home loans.

The DAV remains adamantly opposed to any proposal to remove the Administrator's authority to set the interest rates on VA guaranteed home loans. Should this occur, interest rates would then be dictated by mortgage lenders at, we suspect, a level significantly higher than would be set by the Administrator. Without doubt, all veterans, including service-connected disabled veterans, would be adversely affected by such a procedure.

Also, Mr. Chairman, the Administration is seeking the enactment of government-wide credit reform legislation that will, according to VA budget documents, identify the grant equivalent subsidy of all federal credit programs, including those administered by the VA, and require subsidy payments to one of two central revolving funds to be established at Treasury.

This subsidy would be created, according to the Administration, in recognition of the necessary resources required to reflect the true cost of credit for effective federal budgetary control. In their view, federal credit programs provide more favorable terms than borrowers could otherwise obtain in the private market, thereby resulting in a subsidy to the borrower.

The Administration has proposed specific equivalent subsidy (percentage) values for all VA loans -- guaranteed, direct and vendee -- that will require an appropriation in Fiscal Year 1989 of more than $1.3 billion to fulfill the requirements of their proposal. While, at the same time, they estimate to reduce VA loan program budget authority and outlays by more than $246 million.

From the information provided, it appears that the VA's Revolving Funds would eventually be eliminated, while the VA would, apparently, continue to administer their various loan programs.

Mr. Chairman, the DAV has some serious reservations and questions regarding this credit reform proposal. For example:

* By eventually terminating VA revolving funds, does this mean that certain VA functions, such as property management, will also be transferred to Treasury?

* Is the equivalent subsidy appropriation really required "up front" without first determining the actual needs of the fund?

* Will the "up front" appropriation be specifically earmarked for VA loan programs, or will it become available to settle indebtedness in other federal loan programs?

* Will the VA be required to change the manner in which they currently administer their various loan programs?

* Should the manner and procedures the VA currently follows to administer their loans change, what impact will this have on eligible VA beneficiaries?

The Administration, in our view, has failed to provide convincing information for the DAV to support their credit reform proposal. In addition, it is unclear how they justify reducing loan program budget authority and outlays in Fiscal Year 1989.

Mr. Chairman, contrary to the information provided in the Administration's budget documents (attempting to justify their credit reform proposal) it would appear that the real purpose of the reform is to limit all new loan obligations in the near term with the ultimate goal of virtually eliminating all such federal programs.

There is one proposal clearly missing from this budget request -- an authorization and appropriation request for the

Veterans' Job Training Program. We urge the Committee to favorably consider extending and funding this important program.

In conclusion, Mr. Chairman, as we have noted several times during the course of our testimony today regarding the VA's proposed Fiscal Year 1989 budget, we strongly endorse the combined effort of several veterans' service organizations. That effort is the Independent Budget for Veterans.

In our view, the Independent Budget represents a realistic assessment of the VA, its programs and the beneficiaries it is mandated to serve. We strongly urge you, Mr. Chairman, and the members of the Committee to favorably consider the Independent Budget and then recommend to the Budget Committee funding levels that truly reflect the needs of all VA benefits, programs and services.

* * *

DEPARTMENT OF LABOR VETERANS' EMPLOYMENT AND TRAINING SERVICE PROPOSED FISCAL YEAR 1989 BUDGET

Mr. Chairman, with the exception of the Local Veterans' Employment Representative (LVER) budget request, we believe the Department of Labor's Veterans' Employment and Training budget request is adequate for Fiscal Year 1989.

The Administration is requesting $142.4 million for Fiscal Year 1989 to fund the Veterans' Employment and Training Service. This includes $127.3 million for the LVER and Disabled Veterans' Outreach Program (DVOP).

Mr. Chairman, $73.8 million of the $127.3 million is earmarked for DVOP. This amount would fund 1,891 positions which we believe is adequate and complies with Section 2003A of Title 38, U.S. Code. The remaining $53.4 million would fund only 1,252 LVER positions, falling 205 positions short of the number required based on the Department of Labor's funding formula for LVERs.

It is significant to note, Mr. Chairman, that in January, 1981, there were approximately 2,400 LVER positions nationwide. During the past seven years we have witnessed almost a 50% decrease in the number of LVERs providing direct employment services to our nation's veterans.

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S. 2049 -- The Veterans' Home Loan Program Improvements Act of 1988

Introduced by you, Mr. Chairman, and Senators Murkowski, Bentsen and Gramm on February 4, 1988, S. 2049 proposes to (1) establish an independent national commission on the Veterans Administration Home Loan Guaranty Program; (2) authorize reductions in the interest rate on vendee loans made by the VA to finance the sale of properties acquired as a result of foreclosure; and (3) establish creditworthiness requirements for assumptions of VA vendee loans.

As you know, Mr. Chairman, the VA Home Loan Guaranty Program is facing some serious difficulties and, from all indications, those difficulties appear to be worsening. The DAV is pleased to take this opportunity to commend you, Mr. Chairman, and Senator Murkowski, for the keen interest you have taken in the program by introducing S. 2049.

Section 2 of the bill would establish an independent commission on the VA Home Loan Guaranty Program for the purpose of assessing the program.

The proposed commission would consist of nine (9) voting members appointed by the VA Administrator, not later than April 30, 1988, in consultation with the leadership of the Veterans Affairs Committees.

Four (4) of the commission's voting members are to be broadly representative of the housing, home loan, and real estate and related industries. The other five (5) voting commission members are to be representative of the general public and must be selected from academic and commercial enterprises and the veterans' service organizations, with three (3) such members specifically representative of the general public.

In addition, the following will be ex officio, non-voting members of the commission:

* Administrator of Veterans Affairs;

* Chairmen and Ranking Minority Members of the House and Senate Veterans Affairs Committees;

* Commissioner of the Federal Housing Administration;

* Chairman of the Federal National Mortgage Association;

* two (2) VA employees serving in Loan Guaranty divisions in VA regional offices; and

* such additional members from other federal government agencies or government-sponsored entities as the Administrator wishes to designate.

The legislation requires the Administrator to appoint the chair from the voting members of the Commission.

The commission is charged with submitting a report, not later than 12 months after its appointment, to the Administrator and the Veterans Affairs Committees on its findings, views and recommendations concerning:

- * ways to reduce default and foreclosure rates on all VA loans;

- * ways to minimize VA property acquisition, management and disposition costs resulting from foreclosures;

- * the management and disposition of VA loans to finance the sale of acquired properties;

- * the causes of increased program costs during the previous ten years and ways to reduce such costs;

- * ways to improve the solvency of the Loan Guaranty Revolving Fund;

- * the need for improvement of program benefits and assistance to veterans participating or desiring to participate in the Home Loan Program;

- * the desirability and feasibility of coordinating VA policies and practices with other government agencies and entities; and

- * such other matters relating to the administration of the program as the commission considers appropriate, or are suggested by the Administrator, or concurrently, by the Chairmen and Ranking Minority Members of the Veterans Affairs Committees.

Two (2) months following the submission of the commission's report, the Administrator is required to submit to the Veterans Affairs Committees an interim report containing:

- * the Administrator's views on the desirability, feasibility and cost of implementing the commission's recommendations and the actions taken or planned with respect to such recommendations;

- * the Administrator's views on any legislation or regulations proposed by the Commission, as well as the need for alternative or additional legislation or regulations, to include the cost of such; and

- * any other proposals that the Administrator considers appropriate in light of the commission's report.

Not later than six (6) months after the commission has submitted its report, the Administrator must submit to the

Veterans Affairs Committees a final report concerning actions taken with respect to the recommendations of the commission and any further recommendations the Administrator considers appropriate.

The commission, under the terms of the bill, would terminate 90 days following the date on which the Administrator submits the final report.

Section 3 of S. 2049 proposes to amend Section 1816(d) of Title 38, U.S. Code, to authorize the VA to reduce interest rates on vendee loans made by the VA to finance the sale of properties acquired as a result of foreclosures. Such authority would enable the VA to reduce, when real estate market conditions dictate, interest rates in order to market acquired properties competitively, so long as such actions were in the best interest of the long term stability and solvency of the Loan Guaranty Revolving Fund.

Through appropriate amendment to Title 38, U.S. Code, Section 4 of the bill would require the VA to establish creditworthiness standards for assumptions of all VA vendee loans.

Mr. Chairman, the difficulties and problems encountered by the VA Home Loan Guaranty Program has been attributed to a number of factors. Severe economic downturns in certain areas of the country with resulting high rates of foreclosures on VA guaranteed home loans; fraudulent practices by appraisers and other forms of fraudulent activities such as equity skimming, kickbacks in the mobile home industry and false credit reporting; questionable VA policies and management in the acquisition of foreclosed properties in certain areas; OMB directed policy of accelerated selling of portfolio assets; and the critical shortage of loan guaranty personnel available to service delinquent and defaulted VA guaranteed loans to name just a few.

Clearly, Mr. Chairman, you have recognized that the problems of the VA Home Loan Guaranty Program have grown worse during the past ten years. These problems have grown so severe that the Administration has requested a $658 million appropriation for Fiscal Year 1989 in its recent budget request.

The crisis of the VA Home Loan Guaranty Program is fully obvious and the time to take meaningful, substantive actions is now. Actions that will turn the problems of the program around and put the Loan Guaranty Revolving Fund on solid financial footing and return it to solvency are needed now.

For example, the proposals set forth in Sections 3 and 4 of S. 2049 are unquestionably some of the substantive actions needed, as were the provisions of S. 2022, as passed by the Senate on February 1, 1988.

In addition, the Independent Budget for Veterans proposal that has been submitted to the Committee by the veterans' service organizations also sets forth several appropriate ways to deal with the problems of the program.

Specifically, those proposals request:

(1) increased loan guaranty staffing levels dedicated to providing immediate servicing of defaulted loans in an attempt to avoid foreclosures;

(2) stop the OMB policy of accelerated portfolio loan sales; and

(3) increase the number of direct loans the VA is authorized to make to eligible veterans.

These proposals, we realize will not, in and of themselves, solve all the problems of the program. We also recognize that some of these proposals will require additional appropriations. However, the problems of the VA Home Loan Guaranty Program cannot be wished away and the longer we wait to take decisive action, the greater the cost will be to the American taxpayer and other VA benefit programs.

Having said that, Mr. Chairman, we must conclude that the creation of an independent commission to assess the VA Home Loan Guaranty Program, no matter how well-intentioned, as proposed by Section 2 of S. 2049, comes too late. That is, by the time the commission can report to the Administrator and the Veterans Affairs Committees, and all have an opportunity to react, both with regulatory and legislative actions, possibly two or more years will have elapsed before meaningful, effective changes can be implemented to improve the program.

Therefore, the DAV strongly urges the Committee to carefully evaluate all the recommendations offered to correct the problems of the VA Home Loan Guaranty Program and to go forward with comprehensive legislation that can be enacted and implemented before this year ends. The time is now to change the course of this valuable program.

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DEPARTMENT OF VETERANS BENEFITS STAFFING

Mr. Chairman, in response to your question regarding, "the effects of the significant reduction in the Department of Veterans Benefits staffing over the past several years," the DAV, during 1987, solicited the views of 20 of our National Service Offices to determine how well the VA's claims processing system was functioning, particularly in terms of quality and timely compensation and pension determinations. These offices ranged in size from an office staffed by one NSO to an office with 11 NSOs, as well as our National Appeals Office located at the Board of Veterans Appeals in Washington, D.C.

Generally speaking, our NSOs reported that the vast majority of VA employees are genuinely committed to providing the maximum compensation and pension benefits allowable by law to our nation's disabled veteran population and their families. However, without exception, our NSOs hastened to add that there are a number of concerns which they believe affect both the timeliness and quality of VA compensation and pension determinations. These areas include:

* the steady decline in the number of DVB employees over the past several years;

* delays in receiving service medical records;

* long delays in receiving inpatient and outpatient reports from VA medical centers;

* length of time it takes to obtain a VA compensation and pension examination;

* the VA's preoccupation with end products;

* production standards for VA adjudication personnel;

* the inadequacy and over-reliance on pattern letters; and

* the impersonal nature of computer-generated correspondence.

With this in mind, Mr. Chairman, I would like to discuss these and other issues affecting VA claims processing in the Department of Veterans Benefits, as well as the Board of Veterans Appeals.

DEPARTMENT OF VETERANS BENEFITS

Since 1979, the VA's Department of Veterans Benefits has experienced more than a 30% reduction in staffing at VA regional offices nationwide. One VA regional office surveyed by a DAV National Service Officer revealed a 43% reduction in DVB personnel with a corresponding decrease in workload of only 14%. Simply put, DVB employees at this regional office have been asked to produce nearly 30% more work today than was performed by employees in 1979. While this regional office certainly represents one of the worst cases we encountered, it does, however, represent the general state of affairs for VA regional offices across the country -- a state which must be addressed and corrected in order to relieve the unrealistic workload demands placed on DVB employees.

We understand the need to control the spiraling federal deficit and we have supported some Congressional efforts to accomplish this goal. However, we do not believe the Administration has given due consideration to the number of employees necessary to produce quality and timely decisions which materially affect the lives of our nation's veterans and their families.

Delays Affecting Claims Processing

As you know, Mr. Chairman, an original compensation claim requires certain documents and evidence in order to establish service-connected status, as well as the degree of disability. Certainly, service medical records are critical in this process. Without exception, our NSOs report that, in varying degrees, veterans' compensation claims are being unduly delayed -- sometimes up to a year -- while awaiting receipt of service medical records.

Mr. Chairman, a recent General Accounting Office (GAO) study has brought to light several problems regarding the timely delivery of service medical records from military personnel record centers to VA regional offices. We have learned that, as a result of the GAO findings, the VA and record center officials have taken steps to improve response time. These corrective actions include:

- The Army plans to eliminate the need for VA to resubmit requests when records are still in transit from separation processing offices to the Army Personnel Records Center. An automated process will hold all initial requests and provide the medical records to the VA when they become available.

- The VA plans to send the National Archives and Records Administration's National Personnel Records Center (NPRC) an automated tape of all VA regional office requests for medical records. These requests are currently mailed to NPRC. This process will save three to five mailing days and reduce lost or misrouted requests.

- NPRC plans to enter manually prepared requests to its data base and match them with the VA-provided tape to identify duplicate requests. This will improve NPRC processing capabilities and expedite responses to the VA.

We applaud these efforts and certainly hope actions by the VA and military personnel records centers prove successful in providing a more timely response to VA requests for service medical records.

Another area of concern among DAV NSOs relates to the length of time it takes to receive inpatient and outpatient reports and VA examinations from VA's own medical centers. Far too many compensation/pension exams take up to seven months and, in some cases, as much as one year to be returned to VA Rating Boards by VA medical centers. Also, receipt of hospital reports and outpatient records are delayed anywhere from two weeks to six months before reaching VA Rating Boards. Obviously, these long delays place many veterans in financial hardship -- especially those veterans who are unemployed or hospitalized by reason of their service-connected disabilities and veterans who are dependent on the receipt of VA compensation payments to provide for themselves and their families.

The problems of timely receipt of VA examinations and hospital records from VA medical centers is not new. Far too many problems remain, given VA's attempts to correct these delays.

Possibly one solution to the timeliness problem might be to establish a system whereby VA regional offices and VA medical centers can communicate via computer systems. This, we believe, will decrease the necessity of time-consuming written and telephonic communications.

End Product Measurement

The VA system of measuring the timeliness of VA claims processing (often referred to as the "end product syndrome") is one of the most troublesome issues faced by VA regional office employees, and DAV National Service Officers as well. End products are established in the VA computer system (TARGET) for each claim received at a VA regional office. Essentially, end products measure the time it takes to complete claims and also acts as a diary system to maintain control of VA claims. Additionally, as I will discuss later, regional offices use this end product system to measure the productivity of their employees.

In responding to our request for information, DAV National Service Officers obtained timeliness information from their respective VA regional offices. This information revealed that the average time to process an original compensation claim ranges from 100 to 180 days and reopened claims take anywhere from 60 to 100 days to complete.

In an effort to determine the accuracy of VA statistics with respect to timeliness, one of our National Service Officers randomly reviewed 14 reopened claims for increased compensation. When a VA exam was conducted, the review disclosed that the average number of days to process this type of claim was 178 days. This is fully 83 days longer than the statistics provided by this regional office. The total number of days required to complete a reopened claim -- where hospital records were obtained -- was 156 days...61 days longer than the average time reported by this VA regional office.

We are not questioning the VA's statistics on timeliness, rather, we wish to demonstrate that by only noting the average number of days it takes to process a broad category of claims does not truly reflect the length of time that some reopened claims take to be processed. The delays noted in the two examples cited, for the most part, affect eligible veterans who are most urgently in need of timely processing of their claims for replacement of lost income due to service-connected disability.

Further, it is significant to note that end products may be taken at different times on claims (which have the same end product) based on the circumstances in each individual case. For example, an original compensation claim may be quickly disposed of where it is established that the veteran has a bad discharge; service medical records are submitted with the claim; and in those instances when a veteran fails to report for a VA examination or submit evidence requested by the VA. In those compensation claims where it is necessary to obtain service medical records and complete a VA examination, obviously it takes much longer than the average time stated by the VA for original claims.

Similarly, reopened claims vary according to type and the need for development. Examples of reopened claims that may be resolved quickly include: a claim received with sufficient medical evidence (no VA examination is needed); or a claim received with the necessary documentation to establish an additional dependent for compensation or pension payments. Reopened claims which take much longer include those claims which require a greater degree of development -- such as requesting VA examinations or VA hospital reports.

Administrative Disallowance

A procedure known as administrative disallowance (also referred to as a record purposes denial) is yet another concern to the DAV. As you may know, this is another means by which the VA measures the timeliness of their claims processing activities. This is a process whereby claims are disallowed when veterans fail to respond to the VA's request for additional evidence (generally 60 days).

The DAV fully understands the necessity of establishing a system to measure the timeliness of VA claims processing. However, for the reasons stated, we view such measures with skepticism.

Possibly, a system that would further break down original and reopened compensation/pension claims into additional categories would provide a clearer picture of the length of time it takes to process claims. In addition, it might well relieve pressure on DVB personnel to work for veterans rather than end products.

Productivity Standards

Mr. Chairman, of the concerns voiced by DAV NSOs, as well as VA employees, the greatest concern surrounds the VA's productivity standards set for DVB personnel who are charged with the responsibility of making decisions on veterans' claims for compensation and pension benefits.

While we do not point an accusing finger at anyone, we must however point out that the system of evaluating performance of Rating Board personnel may be subject to misuse or abuse by individuals in an effort to achieve their end products. For example, a Rating Specialist may take the easy way out by preparing a handwritten confirmed and continued rating rather than dictating a more time-consuming typed rating. Also, a Rating Specialist may stockpile certain, less time-consuming ratings for a period when he/she needs to reach quota.

We have also been made aware of a pattern that exists at one regional office where Rating Boards are reluctant to schedule a VA examination when a veteran has reopened his claim for an increased compensation evaluation. For example, in one case, the veteran had not been afforded a VA examination in ten years and, in another case, the last VA examination the veteran was given was more than 40 years ago. This practice results, quite often, in a Board of Veterans Appeals remand for a current VA examination, consequently resulting in additional needless delays in the veteran's claim.

The DAV's concern surrounding the VA's method of evaluating Department of Veterans Benefits adjudication employees' productivity and their reliance on end products is no more evident than the following example:

> The supervisor at one of our National Service Offices expressed his frustration in dealing with the Rating Board by indicating that he "never thought he would see the day when he would argue an end product with a Rating Board." He went on to describe how he had taken an unpromulgated rating (a rating in which administrative action had not yet been taken to input the decision) back to the Rating Board requesting that they reconsider their decision based on additional evidence he wished to present to them. In reply, the Rating Board informed this NSO that they would not reconsider the rating, as they needed the end product, further indicating that the veteran could either reopen the claim or appeal the decision -- both options causing a needless delay in the veteran's claim.

Statistical Quality Control

Another area of concern to the DAV is the VA's quality review system. This system, known as "Statistical Quality Control" (SQC), is designed to keep adjudication and Rating

Board personnel technically proficient in quality processing of VA claims. While we applaud the VA for its quality control efforts and firmly believe they can work, we also realize that until the VA relieves the undue pressure being placed on DVB employees to produce more and more end products, problems such as those previously discussed will continue to increase and the morale of DVB employees will continue to decline.

BOARD OF VETERANS APPEALS

Mr. Chairman, in order to assure that the Department of Veterans Benefits, through its regional offices, is granting all benefits authorized by law to veterans, their dependents and survivors, there exists a Board of Veterans Appeals.

Aside from an administrative service which handles the support functions and activities of BVA, appeals are primarily addressed by a Professional Service presently composed of 21 board sections. Each board section is composed of three members: a chief member (attorney), a medical member (physician), and a legal member (attorney). In addition, each section has assigned to it approximately six "attorney reviewers" and a secretary.

Quality Review

In an effort to assure that our nation's veterans and their families receive fair and equitable decisions on their appeals, the Board of Veterans Appeals has in place a two level quality control system.

Initially, all BVA decisions are subject to a review by the Appellate Index and Retrieval Staff (AIRS). This staff, composed of attorney counselors from all board sections on a rotating basis, has the primary responsibility to conduct an editorial review looking for typographical and format errors.

Cases found to be in error are then referred to the Office of Quality Review.

The Office of Quality Review, consisting of two Deputy Vice Chairmen and a secretary, review all cases referred to them by AIRS, as well as certain other categories.

During Fiscal Year 1987 the Board of Veterans Appeals set a goal to subject at least 15% of all decisions to the second level of review. During the first three-quarters of Fiscal Year 1987, more than 17% of BVA's decisions were reviewed in this second level.

Mr. Chairman, we believe the Board of Veterans Appeals' quality review system represents a genuine effort on their part to assure that our nation's veterans receive fair and equitable treatment under the laws administered by the VA.

Timeliness

As you may know, the caseload of the Board of Veterans Appeals has continued to increase over the years. In an effort to alleviate the increasing number of backlogged cases, Congress took action which resulted in the passage of Public Law 98-223. This law, in part, provided for an increase in the number of Board members from 50 to 65, representing a 30% increase in Appeal Board membership. While the problem of backlogged cases at BVA has abated somewhat, the time it takes veterans to receive a decision on their appeals (from Notice of Disagreement through final action by BVA) continues to remain unacceptably high (418 days for the first three-quarters of Fiscal Year 1987).

Mr. Chairman, the major portion of the delay in processing appeals rests not with the Board of Veterans Appeals, but at the VA regional office level. Of the 418 days noted above, 284 days are spent at VA regional offices and only 134 days at BVA.

Remands

The DAV is concerned with the high number of cases being remanded to regional offices by the Board of Veterans Appeals. During Fiscal Year 1987, 20.7% of all cases received at BVA were returned to regional offices for additional action.

While there are several reasons for a case to be remanded for further development, the most common is the failure of VA regional offices to obtain current examination and medical records from VA medical care facilities or evidence from private medical sources.

Also, it is important to note that during Fiscal Year 1987, 20.8% of all cases remanded by BVA to regional offices were subsequently allowed by those offices. This figure, in our opinion, represents the pressures being placed on regional offices to produce more cases with less FTEE.

As previously mentioned, DVB nationwide has experienced more than a 30% reduction in staffing at regional offices since 1979 without a corresponding decrease in caseload. As a result of the loss FTEE by DVB, we are seeing an increase in the number of appeals being filed by VA claimants. (BVA workload data reveals that appeals received in Fiscal Year 1986 were nearly 22% higher than Fiscal Year 1979.)

Furthermore, the degree of training currently being provided to DVB's compensation and pension personnel is seriously inadequate. Due to tight funding, training of Rating Board and other adjudication personnel has been severely restricted. Lack of adequately trained personnel, we believe, is definitely a factor in the increasing number of appeals being filed by VA claimants and their representatives.

Conclusion

Mr. Chairman, we believe the information we have been able to provide the Committee today discloses a number of very important points:

1. DVB employment levels have decreased significantly over the past decade without a corresponding decline in workload.
2. The VA's emphasis on end products, as well as production standards, negatively affect quality.
3. Timeliness in obtaining evidence necessary to adjudicate veterans' claims from military and VA medical centers needs improvement.
4. The time it takes for regional offices to forward veterans' appeals to BVA has substantially increased.
5. While BVA employment levels have increased in order to keep pace with their increased workload, backlogs continue to grow.

The time is long overdue for the Administration and the Congress to alleviate the conditions which place extreme pressures on VA personnel to produce more, more and more. It is time to place the emphasis on quality and timely VA benefit determinations. The system must serve veterans, not the system.

Therefore, we strongly recommend the following actions to address the problems of the VA claims processing system:

1. Staffing increases in DVB.
2. Modernization of DVB's automated systems.
3. Enhanced training for DVB employees.

Finally, it is important to note that the Independent Budget for Veterans for Fiscal Year 1989, submitted for the Committee's consideration, has clearly and concisely addressed this issue. The DAV fully supports and endorses the recommendations proposed by the Independent Budget to address this serious matter and strongly urges the Committee to favorably consider adopting such recommendations in your report to the Budget Committee.

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ALTERNATIVES TO INSTITUTIONALIZATION

Mr. Chairman, the DAV is of the opinion when considering the rapid increase of veterans attaining the age of 65, the general aging of the entire veteran population as a whole, the current environment surrounding the federal budget, and, we believe, the general consensus that appropriate alternatives to institutionalization is, indeed, the preferred mode of providing needed medical care that the VA needs to place more focus on already accepted approaches of alternative care, as well as assume an aggressive posture in developing new approaches.

Currently, the VA conducts a number of programs geared toward providing medical care to veterans with the ultimate goal of avoiding or diminishing the need for institutional care. The most common are:

Hospital based home care
Adult day health care
Geriatric evaluation units
Preventive health services
Palliative care
Community residential care
A program of independent living
Geriatric research
Education and clinical centers

Mr. Chairman, while we believe these program have proved to be effective in the efficient treatment of veterans, we feel a meaningful expansion of these programs is warranted. To this end, we would refer to the extended care portion of the

Veterans' Service Organization's Independent Budget and reiterate our endorsement of the proposals made therein.

As beneficial as these programs appear, more needs to be done to establish viable alternative methods of delivering needed medical and other services to disabled veterans toward the goal of reducing the number and frequency of hospital admissions.

As you will recall, Mr. Chairman, the DAV has been supportive of your efforts and those of the Ranking Minority Member, Senator Murkowski, in seeking legislation enabling the VA to provide certain medical, rehabilitative and health related services in a non-institutional setting that would obviate the need for hospital or nursing home care.

The concept of providing these types of necessary medical and certain non-medical services to veterans to avoid institutionalization is a desirable approach, both from a cost-effective standpoint and, more importantly, for the overall well-being of the veteran.

Mr. Chairman, to enable these provisions to succeed in their intent, we feel it desirable to define, in part, what is envisioned by the term "health related services." This term should, in our view, include, but not be limited to:

Domestic
Bathing
Feeding
Grooming
Changing patient's clothes
Transporting patients
Oral hygiene
Dressing
Diet Management

Custodial
Assistance with daily needs
Turning patients
Catheter irrigation
Massage
Ambulation
Sitter services
Changing colostomy bags
Changing simple dressings
Changing external catheters
Medicine Administration
Assistance with prosthetic devices
Position adjustment/transfers

Homemaker
Housecleaning
Food Preparation
Marketing
Washing clothes

With an increased focus and expansion of existing programs coupled with new, innovative approaches aimed at providing veterans needed health care services in their homes, we feel the result will be the enjoyment of a veteran's independence, comfort and dignity. Certainly, this approach will also produce a far less costly method of providing needed services.

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PUBLIC LAW 99-272

Mr. Chairman, Public Law 99-272 -- The Consolidated Omnibus Budget Reconciliation Act of 1985 -- contained provisions dramatically revising the criteria governing eligibility for receiving VA medical care.

Without question, this measure substantially improved the eligibility criteria for the furnishing of VA hospital (inpatient) care to certain veterans (Category A) by statutorily mandating that the VA shall provide such care to:

- veterans for a service connected disability;
- veterans whose discharge or release from the active military service was for a disability incurred or aggravated in the line of duty, for any disability·
- veterans disabled as a result of VA medical treatment or vocational rehabilitation (Section 351, Title 38, U.S. Code), for any disability;
- veterans rated 50% or more for service-connected disability(ies), for any disability;
- veterans who have a service-connected disability, for any disability;
- veterans who are former prisoners-of-war, for any disability;

* veterans exposed to certain herbicides (Agent Orange) or ionizing radiation, for any disability;

* veterans of the Spanish American War, Mexican Border Period or World War I, for any disability;

* nonservice-connected veterans who are determined unable to defray the expenses of necessary medical care.

Additionally, Public Law 99-272 established what is commonly referred to as a "means test." Under the provisions of the means test the VA may, to the extent resources and facilities are available, provide needed hospital and nursing home care to nonservice-connected disabled veterans (Category B) with annual incomes above $15,833, but not to exceed $21,110, for single veterans and above $18,999, but not to exceed $26,388, for veterans with one dependent.

For those nonservice-connected disabled veterans (Category C) who are single and have incomes above $21,110, or veterans with one dependent whose incomes are above $26,388, the VA may also provide needed hospital or nursing home care, providing the veteran agrees to make a copayment of $540.

The remaining major feature of Public Law 99-272 pertaining to VA health care permits the VA to recover the reasonable costs of medical care provided to nonservice-connected disabled veterans by billing veterans' private health insurance companies.

As you know, Mr. Chairman, this authority, referred to as third party reimbursement, applies only to nonservice-connected disabled veterans and does not apply to any veteran who has a service-connected disability.

Mr. Chairman, since the implementation of these VA health care reforms, we are unaware of any significant problems that have been encountered with respect to veterans' eligibility for care or the actual provision of care.

Recently, we conducted a random telephone survey of a number of our National Service Offices in order to determine what, if any, specific difficulties or concerns have occurred in the Agency's implementation of Public Law 99-272. Not surprisingly, the consensus of opinion of our field offices is that a relatively smooth transition and implementation of these health care reforms has occurred since the effective date of the various provisions.

Mr. Chairman, this measure requires, in part, rather intricate reporting procedures to assess the effect of the implementation of this law. In this respect, we do have some concerns with the administrative procedures implemented to fulfill the reporting requirements. These concerns are fully outlined in the Veterans' Service Organizations Independent Budget Report. In our view, these concerns remain valid and unresolved.

Mr. Chairman, it is our opinion that the intent of Public Law 99-272 -- to provide VA health care services to service-connected and truly needy disabled veterans -- is being met in an adequate fashion.

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VA Automated Data Processing Systems

The DAV has long advocated and supported the necessity of modernization of the Veterans Administration via the use of automated data processing (ADP) technology.

The Decentralized Hospital Computer Program (DHCP) was initiated in the VA during February 1982 to provide timely and cost-effective automated data processing (ADP) technology and resources to support clinical and administrative functions at the VA medical center level, and management functions at all levels.

The DHCP concept involved developing a modular set of computer programs which will evolve from the initial priority function packages (CORE) into an integrated medical care system which will provide comprehensive support for a medical center's specific clinical and administrative automation needs, as well as for system-wide management information.

The major objectives of the DHCP design are:

* development of application software that is standardized and exportable to all VAMCs, yet flexible enough to be adaptable to each individual health care facility;

* standard data elements, simplifying data exchange and interchange in the aggregation of management information;

* an integrated data base permitting patient information to be entered once at the time of the veteran's registration at the facility and accessible later by other functional hospital areas;

* equipment requirements that do not lock the VA into dependence on any specific vendor, thus facilitating procurements; and

* a tool to assist administrative personnel and health care providers in the performance of the VA's mission to provide timely, quality health care services to disabled veterans.

The Department of Veterans Benefits (DVB) urgently requires modernization of its automated systems to attain increased productivity, however, systems modernization has proceeded extremely slow. This is due, in large part, to a lack of adequate funding and the necessity to work with outdated equipment.

In their planning for systems modernization, there is a need for DVB to incorporate quality control checks and attain the ability to produce quality control data. Also, the system should possess the capabilities of assuring completeness of case processing and safeguards to detect any error-prone situations.

Mr. Chairman, we have always envisioned the process of automating VAMCs as a logical and orderly step to realize full automation of the entire agency, i.e., Department of Veterans Benefits and Department of Memorial Affairs.

Such an endeavor must allow for "networking" of all functions of each individual department that will permit all VAMCs, regional offices, as well as VA Central Office to talk and communicate with each other electronically. Such a process will enable the VA to provide more timely and accurate services to the population it is mandated to serve, this nation's veterans.

Our enthusiasm for this process is heightened by the realization that veterans' service organizations (VSOs) should have equal access to the system in those instances where a valid power-of-attorney is a matter of record. By permitting the VSOs access to a veteran's total record -- medical and benefits -- the quality and timeliness of representation and delivery of VA services will be further enhanced and prove most beneficial to the veteran.

Mr. Chairman, as the VA moves forward in its planning of automation within the Agency, we would strongly urge them to give serious consideration, as well as have meaningful discussions with the veterans' service organizations, regarding VSO ability to utilize the VA's computer system.

A logical and vital aspect surrounding the entire question of modernization has to do with effective management, central guidance and oversight of the Agency's ADP efforts.

Clearly, these crucial management efforts have been lacking in the past. However, in our view, the VA is in the process of implementing several key actions to improve the management of the ADP issue.

In this respect, we would strongly encourage the VA to move swiftly in the direction of sustained improvement in their ADP efforts.

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DEPENDENCY AND INDEMNITY COMPENSATION COST OF LIVING ADJUSTMENT

Mr. Chairman, you have requested the views of the DAV on a proposal made by the Gold Star Wives of America, Incorporated, regarding the 1988 DIC cost of living adjustment.

Specifically, the Gold Star Wives are requesting that the DIC COLA for 1988 be distributed in equal amounts to all DIC recipients, thus paying each a "one-time flat rate increase."

In this regard, as you know, Mr. Chairman, under present law (Section 411, Title 38, U.S. Code) DIC monthly rates are based upon the military rank of a serviceperson at the time of death, if death occurred while on active duty, or the rank of a serviceperson at time of military discharge, if death occurred subsequent to active duty.

There are at present some 23 separate and distinct DIC rates under the formula which governs payments. They range from a low of $518 per month for the widow of a private (pay grade E-1) to $1,327 per month for the widow of a four-star general/admiral (pay grade O-10). (Two additional higher payments are authorized in cases where the veteran served as the senior non-commissioned officer of any one of the uniformed services, or if the veteran occupied the top post in the Army, Navy, Air Force or Marine Corps.)

Mr. Chairman, without going into great detail, I believe that it can be generally stated that, aside from the obvious moral obligation, the purpose of DIC payments to survivors is twofold: first, to provide a measure of financial security to survivors in view of the service-related death of the "breadwinner" head of household and, secondly, to provide such payments commensurate with the "lifestyle" or "standard-of-living" of the family itself.

Having stated this, I wish to direct your attention to a basic flaw of the current formula which, we believe, provides discriminatory payments to a majority of widows presently on the rolls.

In terms of post-service deaths, it seems reasonable to state that the severity of service-connected disabilities that have been carried throughout a lifetime do have an influence on family income and the size of estates left by deceased veterans. If this is so, then we believe the amount of DIC extended to widows should be related to the severity of disability at time of death. Under the current rank-based formula, the percentage of service-connected disability at time of death has no bearing whatsoever on benefit payments.

Addressing this post-service death inequity, which, as stated above, applies to a majority of DIC widows, the DAV has devised a modification of the current formula which is specified in legislation (H.R. 2354) currently pending in the U.S. House of Representatives.

Under the provisions of H.R. 2354, the current rank-based formula for in-service deaths would be essentially kept in place (our bill would provide an additional "add-on," based upon length of service). For post-service deaths, Mr. Chairman, the measure would authorize that DIC payments be tied to the percentage of service-connected disability (of the veteran) at time of death -- the greater the degree of disability, the greater the monthly benefit to the widow.

Under the terms of the bill, no change would be made in the present DIC rate for minor children or children alone. Also, the post-service death formula would not apply to "temporary" disability ratings. DIC beneficiaries on the rolls prior to the effective date of the bill would be "grandfathered" to the current formula, with a one-time, irrevocable option to elect to receive benefits under the new plan. All DIC awards adjudicated by the VA after the effective date of the bill would only be paid under the new proposal.

Mr. Chairman, we realize that change in the current DIC program is a complicated issue, one that is fraught with emotion. We also realize that other veterans' and military widow organizations have proposals and suggestions of their own, such as that recommended by the Gold Star Wives. We believe that our proposal is one that first guarantees protection of existing benefit levels to current beneficiaries and, at the same time, provides to the greatest number of present and future DIC recipients a more equitable distribution of payments. Therefore, the DAV is unable to support the recommendation of the Gold Star Wives of America, Incorporated.

Mr. Chairman, we urge the Committee to give serious, favorable consideration to reform of the current DIC program as proposed by H.R. 2354.

Mr. Chairman, this concludes our testimony. Again, I wish to thank you and the members of the Committee for allowing us this opportunity to present the views of the DAV on these important issues.

PVA
PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

STATEMENT OF
R. JACK POWELL
EXECUTIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
REGARDING THE
PRESIDENT'S PROPOSED FISCAL YEAR 1989
VETERANS ADMINISTRATION BUDGET REQUEST
AND
THE STATUS OF CERTAIN VA HEALTH CARE AND BENEFIT DELIVERY SYSTEMS
MARCH 4, 1988

Mr. Chairman and Members of the Committee, on behalf of Paralyzed Veterans of America (PVA) I appreciate this opportunity to comment on the President's Fiscal Year 1989 Budget Request for the Veterans Administration. I am R. Jack Powell, Executive Director of Paralyzed Veterans of America. It is a pleasure for me to present our views of the adequacy of next year's proposed VA funding levels so important for the health and well-being of our Nation's veterans.

As requested, I will also respond to the five areas mentioned in your letter of invitation: The VA home loan guarantee program; reduction in the VA Department of Veterans Benefits staff; adequacy of health care program alternatives to institutionalization; status of health care eligibility reforms mandated by Public Law 99-272; and, the VA's automated data processing system.

FISCAL YEAR 1989 PRESIDENT'S BUDGET

Once again, as in the past several years, the Administration has presented the veterans of this nation a "smoke and mirrors" budget which falls far short of meeting the current and projected demands placed on the VA by the veteran population. The proposed "increases" in Fiscal Year 1989 spending, calling for $30.1 billion in budget authority, are "padded" by well over $2.7 billion in expenditures from nonappropriated VA trust funds and ill-advised credit reform legislative proposals. When this budget is finally stripped clean, we see a funding proposal that is well-below zero growth for the VA and nowhere near meeting even the "current services" needs of the agency. Once funding for entitlement programs is factored out, the discretionary portion of the budget, the area so necessary to maintain quality benefit delivery, would rise only 1.8 percent over FY 1988 levels. The consumer price index is projected to increase 4.5 percent and the medical inflation rate expected to be far higher still. The budget, in aggregate, is $212 million short of meeting FY 1989 appropriation levels for overall VA current services. Proposed funding for VA health care services is $370 million below the current services mark for the Department of Medicine and Surgery.

If this projected shortfall only represented a one-year cut in VA spending in order to make adjustments due to deficit pressures, PVA could well understand the motivation of the Administration in presenting this proposal. However, VA programs have already contributed well over $2 billion to deficit reduction over the past five years. In the past two years alone, budget proposals and approved appropriations levels have consistently failed to meet even current services projections for the Agency as determined by the Congressional Budget Office. What we see happening is a persistent and pernicious erosion in the ability of the agency to maintain the quality and quantity of benefit delivery and health services at a time when the demands placed on the VA by a rapidly aging veteran population are on the rise. The result not only hurts the veteran, but calls in serious question the professional ability and the perception of the agency to deliver benefits properly and fairly as mandated by the Congress.

There is a recurring statement which has surfaced from time to time in recent years which implies that "veterans have never had it so good." It would be interesting, as well as ironic, to apply this statement to the veteran who has to wait more than a year and a half just to have a claim processed; or the veteran denied medical care because there weren't enough nurses and technicians at the hospital to care for him. This is not hype. It is reality.

The budget calls for an overall reduction of 4,270 full time employee equivalents (FTEE) system-wide. It would then add 1,882 FTEE, but only for the activation of new facilities which are coming on line. If this budget proposal is approved, the VA would actually experience a net loss of approximately 2,400 FTEE which includes 1,732 from medical care and 496 FTEE from the Department of Veterans Benefits (DVB) and the Board of Veterans Appeals.

PVA is deeply concerned over the continued erosion in staffing within DVB. The Administration, in making these cuts, consistently argues the reductions are warranted due to lower workloads and so-called "productivity initiatives" brought on by improvements in automation. Based on PVA's own on-site evaluation of the operation of the the VA Regional Offices, we find this absolutely untrue. The complexity and number of the cases currently pending at the Regional Office level have far overtaken the ability of DVB staff to process these claims effectively and in a timely fashion. We also find it ludicrous for the Administration to cite management improvements and increased automation as rationale for lower DVB staffing, while at the same time it proposes to further cut spending by denying any funding for the DVB system's enhancement.

In our opinion, DVB has suffered a crippling blow by the severe reductions in staffing levels proposed over the past several years. A further reduction of almost 500 staff, which would include 248 regional office claims personnel - a 7.1 percent cut in the workforce - would severely endanger quality of claims processing and due process mandated by the Congress for the veteran population.

The budget would also cut 75 loan guarantee personnel right at the time when the VA should be drastically improving its loan servicing and property management services to salvage this program and prevent further drains on the federal treasury.

A reduction of 1,892 FTEE from the Department of Medicine and Surgery also flies in the face of reason. It is implausible for us to imagine how the agency can continue to maintain service and mandated bed levels based on the expanding demands of an older veteran population with fewer personnel. Even before the FY 1989 budget is factored, the FY 1988 enacted appropriation total for DM&S is already $65 million less than the funding needed to keep the health care system operating at a 1987 level. At the same time, the VA inpatient and outpatient projected utilization figures fall far short of what PVA believes to be the actual demand placed on the system by potential veteran client populations. To name just a few: the denial of outpatient services to the medically indigent to obviate the need for inpatient services; medical needs of homeless veterans; increased costs for AIDS treatment; the World War II Merchant Seamen who were recently granted veteran status; suppressed demand from veterans in rural areas seeking health care but unable to go to the VA because of beneficiary travel restrictions. The budget states as well that it provides for the FY 1989 anticipated two percent pay increase. In reality only one-half of the necessary personnel funds are included to cover this increase The balance will have to be taken from further reductions in staffing.

The American Medical Association recently reported its finding that, as a nation we will have to build a 200-bed nursing home every day between now and the year 2000 just to meet institutional long term care needs of a rapidly aging population.

The VA has projected a need for an additional 3,500 nursing home beds by 1992. Yet, this budget only calls for the construction of 120 new beds in FY 1989. Despite its projections, for FY 1987, the VA has converted only three beds in the entire system last year. This certainly calls in question the agency's projection of converting 232 beds this fiscal year. The FY 1989 budget proposal calls for the conversion of 289 additional beds next year, but ironically claims a reduction in staffing in achieving that conversion. We have to wonder who will provide the care for those veterans eventually occupying those beds if the beds are ever converted at all. At the same time the budget cuts $22 million from the facility construction, modernization and renovation account.

VET CENTERS

The Administration proposes a $4.7 million reduction and a loss of 79 FTEE from the Readjustment Counseling Program for Vietnam Era Veterans (Vet Center Program). PVA has testified consistently in support of this program and for the need to maintain the existing numbers of community based Vet Centers. They are a valuable resource for the Vietnam Veteran population and the veterans' community at large. We estimate that a reduction in staff and resources of this magnitude would mean the closure, relocation and reduction in force of fifteen to twenty Vet Centers. Current Vet Center utilization figures show no decline in workload. In fact, client activity, including new clients coming to Vet Centers for assistance, is on the rise. We recommend that these cuts be rejected in order for the Congress to assess and promote the full potential of the Vet Center Program for Vietnam Veterans and all veterans.

VETERANS' JOB TRAINING ACT

PVA is also concerned that the President's budget completely ignores the employment needs of veterans by calling for no funding for the Veteran' Job Training Act. Since enactment of this legislation, we have found the program to be one of the most effective means of providing active training and retraining opportunities for unemployed or under-employed Vietnam Era and Korean War veterans through private sector incentives. We encourage the Committees to restore funding for this important program.

VA HOME LOAN GUARANTY PROGRAM

The Administration is once again submitting legislation that would repeal the VA's current authority to establish maximum interest rates on VA guaranteed loans. This legislation would allow that loans guaranteed or insured under Chapter 37 of Title 38 be payable on such terms and conditions as may be agreed upon by the veteran and the lender, and that these loans would bear interest at such rate for the lifetime of the loan. PVA strongly opposes this provision.

We are primarily concerned that if the Administration's proposal of negotiated interest rates were implemented, the "no down payment" feature of the VA Home Loan Guaranty Program would be jeopardized. Since the inception of the Home Loan program over forty years ago, the dream of home ownership has been made possible, primarily, because veterans and service personnel were not forced to liquidate their life savings in order to make the down payment on a home. PVA believes that in order for a veteran to negotiate and secure a favorable interest rate, it quite possibly would be necessary for the veteran to make a sizable down payment, thereby removing one of the most advantageous features of the program. Such a proposal would remove the incentive for veterans to participate in the program. It would also place the veteran borrower in a situation where he would have to seek out favorable terms and possibly be forced by lenders to accept above market rates.

The Administration is also resubmitting a legislative proposal known as the Credit Reform initiative. This involves a grant equivalent subsidy which occurs when the Government provides credit to borrowers on more favorable terms than what is available in the private sector. The Administration's proposal will require subsidy payments to a central revolving fund at Treasury prior to making a loan. Although the VA will continue to administer the program, the Treasury will be the central financing mechanism. PVA is opposed to this proposal because we feel the VA will lose substantial control of a program that is rightfully within the complete jurisdiction of the VA Home Loan Guaranty Program. In order to maintain the integrity of the VA's guaranteed loans, we strongly oppose any effort to diminish the VA's role in their own program by placing the control financing mechanism, side by side, with all other new federal loans under the jurisdiction of the Treasury.

LOAN GUARANTY REVOLVING FUND

As we have stated in our Independent Budget, an accurate estimate of the needs for VA's Loan Guaranty Revolving Fund is difficult to ascertain. A significant part of the problem is due to economic and market conditions that are extremely adverse in certain areas of the county. We urge the Congress to fully address the programmatic and financial problems of the fund.

We do recommend that Congress increase the number of direct loans the VA is authorized to make to eligible veterans. Prior to 1980, the VA direct home loan program produced significant income for the revolving fund. We believe this represents a fiscally responsible initiative to ensure the long term security of the VA Home Loan Guaranty Program.

The fund is currently in a significant deficit situation; $390 million has been appropriated for FY 1988. We recommend an appropriation of $600 million for FY 1989 in light of the growing deficit in the fund. Finally, we continue to oppose any effort to increase the one percent loan fee.

Mr. Chairman, we wholly reject the rationale of the President's proposed budget that the VA can continue to do more with less. There are methods in which the VA can operate more cost-effectively and efficiently; however, this does not mean that less money and personnel are required to fulfill the agency's mission. We call upon you and your colleagues to adequately address the needs of the Veterans Administration and this Nation's veterans as you craft the Fiscal Year 1989 budget.

AN INDEPENDENT BUDGET BY AND FOR VETERANS

Mr. Chairman, for the second time PVA is proud to have joined forces with three other major veterans' service organizations in a cooperative effort to develop an independent assessment of the projected resources required by the Veterans Administration to maintain service delivery system. As you know, the "Independent Budget" last year focused primarily on the program requirements of the VA's Department of Medicine and Surgery. This year we expanded the scope of our recommendation to include funding for all veterans' benefits and services.

PVA believes these recommendations are a reasonable and realistic assessment of the current status of the VA Budget and an appropriate guideline for the future direction and maintenance of VA funding levels.

This budget was designed with a full realistic appraisal of the fiscal restraint which is driving all federal programs and services. The total recommended VA appropriation level is $28.485 billion which is only 346 million above the FY 1989 projected level to maintain current services. As a result, most of this recommended increase is required merely to cover increasing costs to maintain needed program levels and not for new initiatives.

Mr. Chairman, with your permission I would like to submit a copy of the "Independent Budget" for inclusion in the record.

Mr. Chairman, I would also like to respond to the five specific areas concerning VA health care and benefit delivery system listed in your February 5, 1988, letter of invitation.

(1) Appropriate ways to deal with the substantial increases in the cost of the VA home loan guaranty program over the past 10 years.

Mr. Chairman, PVA is in total agreement with your assessment of the condition of the VA Home Loan Guaranty Program, specifically the effect property management has had in recent years on an otherwise viable, self-supporting program that has positively benefited millions of veterans since World War II. The actual cost to the Government over the history of the program has been negligible compared to the vast benefits derived by both the veteran population and society in general.

Now, primarily as a result of the downturn in the economy in certain regions, the Home Loan Guaranty Program finds itself with record high default statistics and a record high inventory of foreclosure homes. Although changes in our society and economy present complex conditions to which the housing market must react, we do not feel the Veterans Administration, over the past several years, has used its Congressionally mandated authority and flexibility to respond in the sophisticated manner required by modern marketing techniques and strategy.

PVA strongly supports any measure which addresses the critical problems facing the Loan Guaranty Program. Specifically, we applaud you, Mr. Chairman, and Senator Murkowski, for introducing S. 2049, the "Veterans Home Loan Program Improvements Act of 1988."

The creation of an Independent Commission on the VA Home Loan Program could not come early enough. A thorough analysis of the program-cost and foreclosure-rate increases; the evaluation of possible solutions and changes to improve the financial stability and solvency of the program; and the resulting benefits and services to our Nation's veterans is of critical importance at this time. The expertise afforded by such a Commission is precisely what the program needs. We support its creation.

In addition to the Independent Commission, PVA feels there should be emphasis placed on several other areas to help alleviate the increased cost of the Home Loan Program. Although we applaud the December appropriation which furnished additional monies for counseling assistance to help delinquent borrowers retain ownership of their homes, we feel additional efforts, must be made to avoid foreclosures in the first place. Obviously, both money and staffing are necessary ingredients. We are deeply concerned that the Administration's 1989 budget request calls for 75 fewer loan guaranty personnel.

Secondly, we support legislation that would permit the VA to offer vender loans at interest rates lower than prevailing mortgage market interest rates. We understand that this would generally be done on a regional basis and only when the costs associated with lowering the interest rate would be less than the cost of either reducing the purchase price of the property or of continuing to hold and maintain the property.

Additionally, we support the enactment of new credit worthiness and fee requirements for assumptions of VA vender loans as provided in S. 2049. We owe it to our veterans to return the VA's Home Loan Program to the same one that has fulfilled so many dreams of home ownership. We hope to continue to work closely with your Committee to see that this is accomplished.

(2) The effects of the significant reduction in the Department of Veterans' Benefits staffing over the past several years.

The Department of Veterans Benefits is charged with providing numerous monetary benefits and services to our Nation's veterans. Among the ranks of DVB are Veterans Benefits Counselors, Adjudicators, rating board specialists, home loan guarantee personnel, vocational rehabilitation specialists, and a host of other support and clerical staff. These employees represent the front line of benefit delivery within the VA. Their mission is to provide benefits in a timely manner and a manner that meets basic quality-of-service standards. Today their mission has been seriously threatened.

1988 finds the Department of Veterans Benefits woefully undermanned. The number of full time employees has reached its lowest level in the last twenty years. VA Regional Offices are experiencing substantial pending workloads and numerous services have been adversely affected. Some of the smaller Regional Offices are operating dangerously below minimum optimal levels. Staffing is at a minimum and DVB is unable to replace the experience lost through retirement. Vital training programs have been curtailed with only the most essential ones surviving budget reductions. PVA calls upon you, in our strongest terms, to address the current inefficiencies in the Department of Veterans Benefits. The failure to ensure that veterans' claims are handled in a fair, timely and compassionate manner has not only disastrous consequences for veterans, but jeopardizes the very structure and role of the agency itself.

It is essential that we bring to your attention several additional major problems facing the Department. Although regional in nature, the Home Loan Property management workload has crippled a once self-supporting operation. The VA has a record high inventory of foreclosed homes which has had a severely damaging impact on the program. Recent efforts to correct major inadequacies in property management have taken form in S. 2022 and S. 2049. Both measures address critical problem areas in the program, and PVA applauds Senators Cranston and Murkowski for introducing these measures.

DVB's outreach efforts involve an area often overlooked but critical to the Agency's long range objectives. Whether the issue is homeless veterans, former prisoners-of-war, or incompetent veterans in need of fiduciary supervision, there remains a large segment of beneficiaries whose needs simply cannot be met within the walls of a Regional Office. Such worthwhile programs are suffering from a lack of adequate resources and the result is that veterans are not receiving the necessary, timely service which Congress intended. The staffing problem will be aggravated when newly eligible Merchant Marines begin applying for veterans' benefits.

The Department of Veterans Benefits staffing, in summary, has been under severe attack for the past several years. Most Regional Offices are struggling right now just to meet basic timeliness and quality-of-service standards. Any further erosion at this time, we feel could seriously degrade the quality of services provided by the VA. We therefore strongly support any effort made by those Committees and the Congress to restore funding for these key personnel.

(3) The adequacy of VA efforts to develop and implement health-care programs providing appropriate alternatives to institutionalization, in light of the rapid aging of the veteran population.

Efforts must be intensified to develop and implement health care programs which provide appropriate alternatives to institutionalization. It is predicted that the number of veterans over the age of 65 will increase to 7.4 million by 1991 and will peak at 8.9 million in the year 1999.

As we have stated in our Annual Testimony, PVA recommends rapid expansion of noninstitutional long term care programs in recognition of this particularly rapid increase in demand for the long term care that accompanies aging. This should include increased hospital-based home care, more adult day health programs, community residential care, geriatric evaluation units, more geriatric research, education, and clinical core centers, and finally more respite care programs and hospices.

There are several approaches available to VA and all must include an emphasis on increased interaction with community entities that provide health and health-related services. Ultimately, there must be a greater emphasis on reducing the need for institutional care for veterans. We continue to believe that the Pilot Program for noninstitutional alternatives to Institutional Care (Section 5 of S. 6) is a viable approach in determining the extent to which community facilities will be available. Through such a program, the VA would provide, in noninstitutional settings, medical, rehabilitation, and other health services to veterans participating in the program. This would also include contracts with non-VA entities and health related services. We believe this program can eventually be of significant benefit to all veterans facing long term care. It can also provide an additional community based treatment methodology for veterans facing discharge or inpatients from VA facilities who could become homeless without any other means of traditional treatment.

Mr. Chairman, PVA strongly believes that the VA must aggressively support and expand its programs in noninstitutional health care alternatives for two main reasons.

First, the vast majority of care currently being given the elderly infirm or the catastrophically disabled veteran is already sited outside the institutional setting, in the home. This care is not without enormous psychological and financial cost to the primary caregivers, the veteran's family. The long term care costs, for the most part, are totally unreimbursed or supported by the VA.

Second, in our opinion, under current policy, and faced with impending demand, the VA is supporting institutional long term care services in such a minimal fashion that nursing home beds will probably not even be a care option of last resort for the vast majority of eligible veterans in years to come.

The American Medical Association recently reported that we as a nation will have to build a 200-bed nursing home every day between now and the year 2000 just to meet projected national demands for institutional long term care. Judging from the recent moratoria on the construction of new VA nursing home beds and the VA's reluctance to even convert under utilized acute care beds to extended care function, we see very little effort on the part of the agency to meet this extraordinary need.

Unless action is taken, what we are facing now and in the future is a major long term care gap in the ability of the VA to provide mandated services for eligible veterans. The alternative solution is to fill that gap with services that prove more cost-effective, and more humane, and to provide that care where it is most demonstrably needed in the home and in the noninstitutional setting.

Noninstitutional medical and support services can take a wide variety of functions and forms. We recommend that the Committee encourage the VA to conduct a thorough analysis of these services currently available and a needs assessment of the best way to direct these services to those veterans in most need. This analysis should include a thorough review of the pros and cons of the VA receiving an expanded authority to pay for health related and social services through either enhanced income support, contract or the direct provision of those services by the agency.

(4) The effect on the VA health-care system of the enactment of the income-limitation/copayment and health-insurance reimbursement provisions enacted in sections 19011 and 19013 of the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-2720).

The restructuring of VA eligibility enacted by these provisions has proven to focus the attention of the VA health care delivery system on those veterans with the highest priority for care and those veterans with the highest ostensible need. The implementation of these reforms appears to have proceeded with minimal disruption throughout the VA system.

On review, it would appear that the categorization of eligible veterans by disability priority and income limitations has served largely to stratify veterans for health care eligibility into populations that were, for the most part, already receiving needed inpatient services. This assessment is corroborated by the major study, "Veteran's Health Care: Actions and Interaction" which was commissioned by PVA and released in January, 1987. The study, which reviewed VA health care utilization in four VA medical regions, clearly showed that apart from the service-connected disabled veteran and those veterans in legislatively mandated higher eligibility categories of care, the VA does, for the most part, serve as a health care "safety net" for a largely indigent patient population or for veterans who cannot find and or are not eligible for care in other private or public health care systems. At the same time, those veterans who utilize the VA and can afford to contribute to that care are required to do so either through direct payment or by reimbursement from third party payers. The health care eligibility reforms mandated by Public Law 99-272 have become a welcome statutory protection for the provision and continuation of vital VA health care services which did not exist in the law before.

PVA has two major concerns with the implementation of these reforms. First, we are not at all certain that the reporting mechanisms currently used by the VA to track health care utilization within the system are sufficiently broad to adequately register all veterans in need of care presenting themselves to the VA.

Certainly, the current system can "catch" and register the amount of care being provided once a veteran is admitted and given treatment in a VA facility. However, we continue to be concerned that the VA is not registering and reporting in an adequate manner currently unknown numbers of veterans who are either being turned away from the VA due to lack of resources or otherwise in need of, or seeking care and not receiving it. We encourage this Committee to review the VA's health care reporting mechanisms to ensure that all eligible veterans are receiving needed health care services in order to be certain that the Agency's health "safety net" is indeed secure.

Second, PVA has testified before this Committee many times on the need to bring consistency to the health care eligibility reforms by authorizing the same entitlement to Category A outpatient services that is currently mandated by law for those same veterans entitled to inpatient care. Current estimates by the Congressional Budget Office have shown comparatively little or no cost to this proposal. We strongly believe that standardizing health care eligibility in this way can only benefit the overall management of the VA's health program by bringing consistency agency-wide to the provision of services. Unified inpatient and outpatient eligibility for all veterans in the highest priority categories will only serve to ensure that those veterans in need can receive the fullest range of needed health care services.

(5) The development and management of VA automated data processing systems.

Department of Veterans Benefits - DVB's need to modernize in order to improve service to veterans while reducing costs is unparalleled in recent history. Although much time and effort has been invested in determining DVB's ADP needs, very little concrete progress has been made toward a satisfactory solution. While competing demands are being made on the Federal Budget, both Congress and the VA lack sufficient information to make informed decisions about DVB modernization. According to a recent GAO report, the Department of Veterans Benefits has yet to develope the basic information needed to support such decisions because it has not: a) specified measurable goals and objectives against which to assess progress; b) analyzed the costs and benefits of alternative approaches to determine the optimal modernization strategy, and c) adequately measured and documented the costs and benefits of the selected approach.

PVA understands that steps are now being taken to improve the ADP planning process. Management attention is vital if these systems are to efficiently provide improved services to veterans. We are most concerned with DVB's inability thus far to provide automated access to medical center data needed in processing benefits cases. This process is still being accomplished manually. We find this situation deplorable and urge an expedited solution.

VA Medical Computer Systems - Regarding DHCP and the competing integrated hospital information systems, PVA urges that we proceed with an equitable evaluation, keeping in mind both short and long range application. We are mindful of the Committees on Appropriations intent to closely monitor and review the program's progress. An automated medical care program within the VA, the Free World's largest provider of health care, is essential. It is imperative that the VA develop a state-of-the-art system as quickly as possible. We feel strongly the recent OTA report regarding VA medical computer systems merits your close review.

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Mr. Chairman, this concludes my testimony. I will be happy to respond to any questions you may have.

PVA

PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

March 11, 1988

The Honorable Alan Cranston
Chairman
Senate Committee on Veterans' Affairs
414 Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

In response to your request at the March 4, 1988 hearing on the Administration's proposed FY 1989 budget for the Veterans Administration, we are pleased to provide additional comment on testimony presented at that time.

I hope this information will be useful to you and the members of the Committee.

Sincerely,

Douglas K. Vollmer

Douglas K. Vollmer
National Legislative Director

DKV/kr

Comments on the VA's Testimony
before the
Senate Veterans' Affairs Committee
Paralyzed Veterans of America
Prepared in Conjunction with Dr. Donald Custis and
The Independent Budget Staff

1. The Administrator stated that the VA has requested legislation to expand the agency's authority to provide tuition reimbursement to nurses for nursing degree related careers.

Comment:

The VA should support a variety of diploma programs for nurses, not just bachelor and masters degrees.

2. The VA stated that they had a rationale and basis for the proposed cuts in manpower that have been made or proposed.

Comment:

We maintain that the proposed cuts of 492 FTEE in DVB and 4,270 FTEE in DM&S are entirely arbitrary. Our Independent Budget document details the need for FTEE increases in both departments.

3. The Administrator cited reductions in the average daily census as justification for FTEE cuts in medical care.

Comment:

This statement ignores the fact that while the average length of stay and the bed occupancy rates have been falling, the total patient workload has been steadily and dramatically increasing. At the same time, present hospitalized patients require a more intensive level of care.

4. Chairman Cranston asked if the VA had requested an add-on for the Homeless Veterans Treatment Program. Or, was the VA directed by OMB to absorb the cost of that program out of existing FY 1989 funding.

Comment:

The VA was directed to absorb the cost of this program out of existing resources. Absorption of costs of new programs is a typical OMB ploy which continues to erode the medical care resource base.

5. Chairman Cranston questioned the proposed reduction of $4.7 million and 79 FTEE from the Readjustment Counseling Program particularly when there does not appear to be any decrease in demand for readjustment counseling services to date.

Comment:

There has been no decrease in readjustment Counseling demand or workload. This proposed decrement in resources is but another illustration of OMB's arbitrary action to reduce funding for this program.

6. Chairman Cranston asked the VA to provide data on both the quality and timeliness of current Chapter 31 claims processing.

Comment:

We stand by the accuracy of our data in the Independent Budget documenting deterioration of these services and the need for an increase in FTEE.

7. Chairman Cranston questioned the Administration's proposed credit reform proposal as being an initiative that even the VA does not completely understand.

Comment:

We fully share this concern. Judging from the present confusion surrounding this proposal, it is clear that the concept has not been carefully analyzed or reviewed by the VA for the agency to pass any judgement on its merits or the potential harm to veterans' programs if enacted. We believe that the concept is totally misguided and could further erode the agency's ability to manage and properly implement the home loan guarantee program.

8. The VA stated that DM&S has received $1.4 billion for equipment from 1981 to 1988. They also allocated $776 million for new and renovated medical facilities which was called the largest construction allocation in the history of the agency.

Comment:

Without belaboring the question of increased productivity within the VA which certainly has accrued over these same years, the above statement ignores certain "yes, buts".

Major equipment acquisition has so lagged over the past eight years that DM&S now has an "equipment needs" list of over one billion dollars. Obsolete equipment riddles the system if the truth were acknowledged. Likewise, in terms of dollars corrected for inflation, FY 1988 was not the highest point of construction in the history of the VA.

Statement of

NOEL C. WOOSLEY
AMVETS National Service Director

Before The

COMMITTEE ON VETERANS' AFFAIRS

U.S. SENATE

ON

THE VETERANS ADMINISTRATION'S PROPOSED

FISCAL YEAR 1989 BUDGET

MARCH 4, 1988

AMVETS is pleased to present our views on the Administration's proposed budget for the Veterans Administration for Fiscal Year 1989.

The attitude conveyed in the Administration's proposed budget for FY 1989 does not portray a willingness to meet the challenge of adequately caring for those who served in America's military forces. These brave and unselfish men and women have earned certain entitlements and benefits, which a grateful nation says they richly deserve. Many of these entitlements and benefits may well cease to exist if this budget authority is not modified to reflect a true inflation rate. As it stands, this budget proposal will not allow the VA to maintain current services.

The budget request for FY 1989 calls for $27.927 billion to fund medical, compensation, and other programs to care for 27.5 million veterans, eligible members of their families, and survivors of deceased veterans. While this request is some $865 million greater than FY 1988 estimated requirements, it will once again fall short of what is needed in real dollars.

The 1989 budget provides $16 billion for benefit programs, $10.6 billion for medical programs and $501 million for construction. Total agency full-time equivalent employment is expected to be 219,830 - down 2,439 from that which is currently proposed for FY 1988. The VA claims that this loss will once again be absorbed by improvement in productivity, greater automation capabilities and a decreased case load. We have heard this before and yet the time it takes to process a beneficiary's claim continues to increase. AMVETS does not find it acceptable for the VA to modify its timeliness standards in an effort to meet timeliness requirements. In other words, the three months it took to process a claim in 1983, and meet timeliness requirements, now takes six months to process and yet is still considered timely. This is achieved by simply changing the timeliness standard.

The VA has what it deems as an acceptable loss call rate, however, they have no way of telling how many claimants call who never get through. This works out somewhat like changing the timeliness standards, as you cannot lose a call you never received.

The Department of Veterans Benefits is under-staffed and overworked, which tends to compound the problem, and yet this budget proposes to cut an additional 492 FTEE from D.V.B. Of the 492 FTEE's lost, 248 will come from the Adjudication Division and no amount of lower case loads, automation or increased productivity will stop the trend of a steady increase in timeliness which we have witnessed over the last five years.

VA's $10.7 billion request for compensation payments is based on estimates that veterans eligible for monthly payments, along with the survivors of veterans who died of service-connected causes, will decrease slightly in FY 89. The request provides for a 4.2 percent increase in compensation rates and additional legislation will be proposed to index compensation benefits to the annual change in the Consumer Price Index (CPI). AMVETS, as it has in the past, remains opposed to the automatic indexing of compensation and DIC rates to the CPI. The special needs of many service-connected disabled veterans may not be equitably reflected in the general CPI.

AMVETS, like this committee, is concerned with the increased cost of the VA Home Loan Guaranty Program and the Administration's budget request for $658 million in FY 89 to fund same serves to underscore that concern. While the need for improvement in this program is apparent, how to improve it seems quite complex. It is hoped that as the Administration moves to correct various deficiencies within the program they do not lose sight of the fact that this is a benefit program for veterans and not a profit/loss business enterprise. Proposals to remove interest rate limits for VA guaranteed loans is not a way to improve the program.

The wholesaling of VA portfolios may be a short term improvement- but what happens in the long run? Stopgap measures acted out without proper research will not achieve the desired results. Therefore, AMVETS supports the initiative set forth in S.2049.

If we may assist the sponsors or this committee in anyway with regard to the passage of S.2049, "Veterans' Home Loan Program Improvements Act of 1988," please let us know.

Although the VA budget calls for an overall increase of $865 million over FY 1988 authority, including $208 million more for medical programs; the increase actually becomes a decrease of approximately $370 million in the current services level. It should also be noted that the proposed budget, which falls far short of the mark, claims it will allow the VA to provide quality health care to 1.2 million inpatients, up 7,055 over FY 1988, and 23.1 million outpatients, up 211,000 over FY 1988. The Administration claims they will be able to provide said quality health care despite inadequate funding and a loss of 1,782 FTEE from DM&S. Here again the introduction of new technology is slated to compensate for these losses. A question that comes to mind is how many direct medical care staff will be involved in these cuts? This question is of great concern because we are unaware of any technology that has a bedside manner.

The Administration's proposed 1989 budget with respect to the aging veteran population appears to be meeting the challenge by ignoring it. This is apparent in the number of new nursing home beds proposed in FY 1989.

To quote the Honorable G.V. (Sonny) Montgomery, Chairman House Veterans Affairs Committee, "The Administration's proposed FY 1989 budget is painfully inadequate."

Therefore, AMVETS would like to bring to the committees attention a budget proposal by veterans for veterans. We are again proud to have joined with the Disabled American Veterans, the Paralyzed Veterans of America and the Veterans of Foreign Wars of the United States in formulating a detailed, independent budget proposal for the Veterans Administration's FY 1989: copies of which have been widely distributed to include the members and staff of this committee. We are of the opinion that this independent budget proposal is realistic in it's content and will better serve the VA - who will then be able to better serve America's veterans.

Statement of

The American Legion

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by

JOHN F. SOMMER, DIRECTOR
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION

and

DENNIS K. RHOADES, DIRECTOR
NATIONAL ECONOMICS COMMISSION
THE AMERICAN LEGION

before

THE COMMITTEE ON VETERANS AFFAIRS
UNITED STATES SENATE

on

FISCAL YEAR 1989 VA BUDGET, VA HOME LOAN PROGRAM,
AND VARIOUS HEALTH CARE MATTERS

March 4, 1988

Mr. Chairman and Members of the Committee:

The American Legion appreciates the opportunity to set forth its views on the proposed funding for the Veterans Administration for FY 1989 following an initial appraisal of the budget submitted to Congress by the Administration.

The President has proposed for the Veterans Administration, budget authority of $30.1 billion to fund medical, compensation, and other programs for the nation's 27.5 million veterans, eligible members of their families, and survivors of deceased veterans.

Included in the total is an appropriation request for $27.9 billion, a net amount of $1.5 billion related to proposed legislation and $694 million in permanent authorizations and offsetting receipts. The actual appropriations request is an increase of $865 million over funds appropriated for FY 1988.

While the Administration's proposed overall increase in funding appears to be somewhat positive in nature, there are a number of ill-considered proposals incorporated into the structure of this budget, and each of them will be addressed in detail later in the statement.

At the outset Mr. Chairman, we feel it necessary to reiterate The American Legion's long-standing philosophy on the funding of veterans benefits and programs. The organization has a total commitment to the health and well-being of this nation's veterans, and therefore, stands for full funding for veterans programs. By that we mean there should be provision of such funds as are necessary to effectively carry out the programs that have been established by Congress. We support all of those programs. Each of them had a purpose when enacted, and each has been proven as currently meeting a legitimate need of the veteran population. We are aware of no programs at present that are superfluous or redundant.

We also feel it imperative to note that the Federal budget, between Fiscal Years 1977 and 1986, increased by 147 percent, compared with a 47 percent increase in the budget of the Veterans Administration during the same period of time. This is a point that has never been made by the critics of adequate resources for veterans programs, and if the entire budget of the Government had progressed at the same rate as VA, there would be a surplus rather than a deficit.

Veterans who receive VA benefits earn them - and they deserve them. As citizens first, and veterans second, we appreciate the ongoing attention to the legitimate needs of veterans who are less fortunate than some of their fellow comrades.

It seems that with each new budget come new and innovative methods by which to whittle away veterans' programs. Thus, The American Legion is grateful that the Congress, under guidance and counsel of the Veterans Affairs Committees, maintains a high level of responsibility in the formulation of the VA budget.

Before providing comment on specific budget items, which will be done for the most part with reference to the departments of the VA that administer them, we shall first address those legislative proposals set forth in the budget message. These represent a miscellany of ideas, old and new, some of which seem to totally ignore the anticipated demand for essential benefits and services.

LEGISLATIVE INITIATIVES

# The Administration recommends a cost-of-living adjustment of 4.2 percent in compensation and related benefits to be effective December 1, 1988. The position of The American Legion is that these COLAs should be at least consistent with increases in

the Consumer Price Index. The proposed 4.2% increase for those disabled in service - the most deserving of all Federal beneficiaries - appears, to be commensurate with the current rate of inflation.

# The budget proposal contains a legislative initiative that calls for veterans' disability compensation and survivors' DIC rates to be indexed, by statute, to automatically increase by the same percentage which Social Security benefits increase. The American Legion opposes the indexing of compensation and DIC benefits, and we have testified in opposition to identical proposals in the past. We have found through the years that Congress has been fair and generous in providing for cost-of-living adjustments in benefits for the service-disabled and survivors of service-deceased. Of equal importance is the fact that hearings before the Veterans Affairs Committees on legislation relating to the COLAs, provides a forum at which other legislative issues such as Special Monthly Compensation eligibility criteria, and the development of additional presumptive disabilities may be discussed.

Another proposal would change the eligibility for the current $150 plot allowance making it consistent with the eligibility requirements for the basic burial allowance in FY 1990. The American Legion is totally opposed to this idea. We continue to feel that Congress made a mistake when it restricted criteria for the burial allowance. We are mandated to pursue the restoration of the former eligibility criteria for the burial allowance to all veterans, and to increase the amount of the plot allowance.

# A proposed amendment to section 806 of title 38, U.S.C., would authorize assumption by the VA of full responsibility for the Veterans Mortgage Life Insurance program. We understand that under current law a private insurance carrier acts as the insurer in this program, and it is reported that this arrangement has proven to be costly

and inefficient. Upon review, we found that there are over 5,500 veterans covered in this program and approximately 408 claims were handled in 1987. In light of the projected annual savings of $100,000, we see no reason why the VA Insurance Service cannot absorb the additional workload, and we support this proposal.

# Proposed legislation would repeal the authority that permits VA to make education loans to veterans. This has been attempted several times in the past. Although an earlier cost-savings measure, the Omnibus Budget Reconciliation Act of 1981, limited the number of individuals eligible for VA education loans, those who retain eligibility and who depend on these loans could be forced to discontinue their program of education or training. Thus the American Legion continues to oppose this initiative.

# The Legion supports annual cost-of-living increases in the Reinstated Entitlement Program for Survivors, (Social Security for survivors of veterans who died of service-connected causes), including a 4.2 percent increase effective December 1, 1988.

# The American Legion strongly supports the expansion of authority to allow tuition reimbursement to nurses for degree-related courses, as much needs to be done in the way of salaries and fringe benefits for the purpose of retaining and recruiting nurses in the VA system.

# The Administration's Federal credit reform proposal would require that agencies issuing Federal credit bear the costs of the grant equivalent subsidies provided through credit programs. According to the information contained in the budget message, a grant equivalent subsidy occurs whenever the Government provides credit to borrowers on more favorable terms than those available in the private sector. The proposal would require that VA make payments to Treasury in the amounts of the subsidy prior to the issuance of a vocational rehabilitation loan. Loans of up to $620 are available to service-connected disabled veterans enrolled in vocational rehabilitation programs as

provided under Chapter 31 of title 38, U.S.C. when, in the opinion of the rehabilitation counselor, the veteran is temporarily in need of additional assistance. Repayment is made in ten monthly installments, without interest, through deductions from future payments of compensation, pension, subsistence allowance, educational assistance allowance, or retirement pay. Therefore, repayment of the loan is virtually guaranteed. We see two problems with this proposal. The initial problem is that the Treasury could conceivably be empowered with the authority to impose policy on the Veterans Administration with respect to the operation of the vocational rehabilitation loan program. In addition, the figures involved would, as it has in the instant budget proposal, distort the VA budget. It gives the appearance of additional funding for veterans, but it does not effect veterans whatsoever. Therefore, we do not support this proposal. A similar discussion is contained in the discussion of the VA Home loan program later in this statement.

DEPARTMENT OF VETERANS BENEFITS

Of the agency's total budget for FY 1989, 57 percent will be allocated to the direct benefit program activities of the Department of Veterans Benefits. These programs are, for the most part, entitlements that statutorily must be funded. Their purpose is to provide compensation for service related death and disability, nonservice-connected disability and death pension benefits, education subsistence allowances, and burial benefits.

These direct benefit programs are administered through 59 regional offices located in the 50 United States, the Commonwealth of Puerto Rico, and the Philippines. Under the proposed budget there will be a reduction in average employment of 492 FTEE within the Department with a net reduction in payroll of $7.5 million. This includes losses of 248 in the Compensation, Pension, and Education Service; 73 FTEE in Veterans Assistance Service; 75 in Loan Guaranty; 49 in Insurance; 11 in Vocational Rehabilitation and Counseling Service; and 54 in Support Services.

As a basis for the reduced employment levels, the summary accompanying the budget request states that the decrease in the Department's employment request of 492 FTEE in 1989 is attributable to modernization savings of 54 FTEE, and 438 FTEE due to productivity improvements and declining workloads. These caseload reductions, the summary states, are commensurate with trends reflecting our declining veteran population.

The American Legion is supportive of economy of personnel in management, and maximum productivity by all Federal employees. We have stated so in the past. However, the complexity of veterans' claims has increased due in part to issues such as the pathology of post-traumatic stress disorder, the effects of exposure to Agent Orange and ionizing radiation, just to name a few. The more complex an issue is the more man-hours required to properly develop and adjudicate each case. A certain minimum of personnel is needed to properly process cases, without delay-causing errors that have to be corrected; and productivity can only be used as a relative guide when considering the amount of work that must be done in processing a single case for an award of benefits.

Mr. Chairman, if these proposed employment reductions are enacted, the employment in the Department of Veterans Benefits will have been reduced by well over 6,000 FTEE since 1979. The American Legion is concerned by the cumulative effect these consistent and persistent personnel losses have had on both the quality and timeliness of the delivery of benefits and needed services to veterans and their survivors.

The impact of reduced staffing levels at DVB field stations in recent years is graphically illustrated by steady increases in both the processing times and the error rates in benefit claims. According to available figures, in FY 1982, the regional offices were able to process 41.5% of their compensation cases in 90 davs or less. In FY 1987, thev were onlv able to complete processing on 30.9% of compensation cases within this standard. In FY 1982, 56.3% of the pension cases were completed in 90 davs and in FY 1987, the percentage was 53.0. In FY 1982, 65.5% of the burial claims were processed in 30 davs and in FY 1987, onlv 55.2% were completed within 30 davs. Of particular concern, is that during the last three vears, there has been no appreciable improvement in the qualitv of the decision-making processing in the field. Rather, the trend reflects a perceptible increase in the error rate in both authorization and rating decisions.

These figures, however, do not completelv measure the impact of the continuing loss of personnel upon the individual regional offices. Although there have been no formal reductions in force, attrition through transfers to other agencies, resignations, and retirements without replacements have been the methods bv which mandated staffing reductions have been met. This process does not produce a uniform result at each station. The loss of kev adjudicative, administrative, or support personnel directlv effects the timeliness of the claims processing operations.

DVB has recentlv developed a proposal to implement the consent decree in the litigation Semenchuk v. Walters, bv establishing 30 hearing officer positions to conduct personal hearings at regional offices. Personnel for these positions will be drawn from existing rating boards, and most likelv, will require additional funding for training,travel and support.

The justification for the continued reduced levels of staffing in the field stations is predicated, in part, on trends indicating the number of claims has been steadilv declining. The most often cited example of such trends is the current education program for Vietnam Era veterans wherein the number of veterans who are eligible and enrolled has sharply declined in recent years. In addition, the program will terminate on December 31, 1989. This set of circumstances should theoretically enable regional office directors to reassign adjudication and authorization staff to other types of cases as this program phases out. This favorable scenario, however, overlooks the fact that P.L. 98-525 has provided new educational benefit programs and the overall educational caseload has begun a phase of long-term growth. Under Chapter 32, the Post-Vietnam Era Veterans' Educational Assistance program the number of participating individuals has grown from 63,000 in 1986 to approximately 88,500 in 1988. The numbers, however are expected to gradually decline to 59,500 by 1993. Under Chapter 30, the All-Volunteer Force Educational Assistance Program, however, the number of current participants for 1988 is projected to be 19,400 and will more than double in FY 1989 to 41,900. The number of participants will continue to increase to level off at 242,000 by 1993. The Selected Reserve Educational Assistance program is also expected to undergo substantial growth during the same time period. The number of participants will have grown from 52,400 in 1987 to 136,000 by the end of 1988 and reach a total of 185,300 in 1989. Enrollment is expected to level off at about 213,000 by 1992.

Mr. Chairman, we wish to reemphasize the fact that the average employment in the field stations has been sharply decreasing in recent years. In 1986, the staffing level was 3,801 FTEE. In 1987, this was reduced by 117 FTEE. In 1988, it was further cut by 174 FTEE and under the proposed budget for 1989, staffing will be further reduced by another 248 FTEE. These figures relate to Compensation, Pension and Education alone, and do not include reductions in other staff.

The American Legion is deeply concerned that the field operations of the C&P Service under current staffing levels cannot process the present workload in a reasonable, timely, and efficient manner. The current workloads and what in our judgment are unnecessarily lengthy processing times, do not justify the proposed staffing levels.

Mr. Chairman, we wish to also comment on several factors which will have a very clear and immediate impact upon the field station workload and which have not been addressed in this budget proposal. On January 19, 1988 veteran status was granted to former members of the Merchant Marine. This group which numbers 80,000 - 90,000 is now eligible for the full range of benefits and services enjoyed by other war veterans. The small trickle of claims already filed will undoubtedly grow substantially in months to come.

In addition to the requested decrease of 438 FTEE based upon productivity improvements and declining workloads, a further reduction of 54 FTEE is included based upon modernization savings. However, under the budget requested for ADP Systems Management, the funding level is some $12 million less than the FY 1988 level. The FY 1989 request and the short-term improvements to be undertaken or completed during this period, have not thus far addressed the problem of productivity or timeliness of claims processing, in our judgment. The American Legion is supportive of DVB's efforts to implement an ADP modernization program, in view of the age and limited capacity of the current TARGET system equipment. The ultimate goal of this program will be to improve the efficiency and quality of the claims processing operations in the regional offices, thereby realizing savings in staffing and resources. Claimants will likewise benefit by having their claims handled more expeditiously. It is, therefore, not at all clear how the current "bare bones" approach to modernization is expected to produce the anticipated personnel savings cited in the current budget proposal.

We believe an obvious conclusion can be drawn that the continued reductions in staffing levels in the field stations have had a direct and adverse impact on the VA's overall ability to deliver benefits and services in an efficient and timely manner. There is no doubt that the planned introduction of new technology and upgrading of current equipment and systems will enhance field station operations. However, we hasten to note that current efforts toward modernization are primarily focused on maintenance of the current level of ADP support and long-range planning. Implementation of any major improvements is still some years away.

The American Legion is convinced that the Department of Veterans Benefits cannot operate effectively at the projected level. We, therefore, recommend restoration of funding for at least the 248 DVB personnel in Compensation, Pension and Education. This will require an additional $5.8 million.

DEPARTMENT OF MEDICINE AND SURGERY

The American Legion believes the Veterans Administration medical care program budget has to be maintained at sufficient levels to ensure the provision of high quality patient care. Unlike the direct benefit programs which are statutory in nature, the medical care program funding level is not arrived at through objective criteria. The strength of the medical care program depends entirely upon the adequate appropriation of funds by Congress. Unfortunately, the Veterans Administration medical care budget has only witnessed an increase in actual dollars versus constant dollars in recent years.

The FY 1989 medical care budget provides for treating roughly 1.2 million inpatients and for 23 million outpatient visits. The medical care budget authority of $10.3 billion represents 38 percent of the FY 1989 appropriations request. This percentage is unchanged from FY 1988.

For the first time the budget year pay raise is projected within the Administration's request. The budget funds the proposed two percent pay increase for

FY 1989 in each account at the absorption rate assumed in recent budgets. While at first glance it would appear the Administration's requested increase of $208 million above the FY 1988 level for medical care is generous, close examination shows that roughly 96 percent of this increase will be absorbed by inflation, payroll increases and related changes. Upon further examination of the FY 1989 medical care budget we must comment on other serious reservations.

Again, as in past years, the Department of Medicine and Surgery is being asked to absorb a one percent productivity reduction and also to lower staff to patient ratios. These actions project to a net savings of $192.7 million and a reduction of 4,270 FTEE during FY 1989. We commend the Administration for proposing to expand funding and staffing to increase extended care programs and to support new facility activations. However, rather than proposing additional appropriations to support new initiatives, it appears a stratagem of cost shifting is being employed to achieve the desired outcome.

We are concerned that total Department of Medicine and Surgery employment levels continue to decrease while overall actual workload figures rise. Direct care employment levels are projected to decrease by 1,191 FTEE in FY 1989. Also, administrative and ancillary FTEE levels are projected to decrease.

While there are projected FTEE increases designated for Intermediate and Nursing Home Care, all other acute care employment levels are projected to decrease. The workload data from other inpatient functions does not suggest the acute workload level will decline commensurately with the loss of direct care FTEE. In the best of times the acute care staff to patient ratios are marginal.

We support the Veterans Administration's efforts to reduce costly inpatient care by developing alternative hospital programs, and this is addressed in detail later in this statement. The development of additional nursing care beds through new construction or by the conversion of hospital beds is commendable. We caution, however, that to permanently reduce acute care medical beds may precipitate a future shortage of beds for this level of care. The proposed budget reflects a loss of 1,258. As is customary, acute care beds are usually the entry point for long-term care. Also, the Veterans Administration is the primary back-up to the Department of Defense contingency planning, as mandated by Public Law 97-174.

In the opinion of The American Legion, further reductions in staffing and acute care bed levels will result in irreversible damage to the VA medical care system and the erosion of the quality, quantity and timeliness of medical care that is provided to this nation's veterans.

We must reiterate our objections to the continuation of the Means Test and Third Party Reimbursement (Public Law 99-272). Through survey visits to VA medical centers by our Field Representatives, we continually find the Means Test appears to be more costly to administer than profitable to maintain. The rate of Means Test collections to billings is far less than initial VA projections. Furthermore, VA's own Means Test data has conclusively shown Category C veterans average less than three percent of the systemwide workload. The cost factor to maintain this program far exceeds revenue realized by the U.S. Treasury. The Means Test and Third Party Reimbursement programs have changed the nature of the VA health care program by making it a cost-sharing program rather than a benefit program as intended by the American public. Resolutions emanating from the 1987 American Legion National Convention support continued opposition to the Means Test and Third Party Reimbursement.

The Administration's FY 1989 budget proposes decreases of $4.7 million and 79 FTEE in the Readjustment Counseling Program which is carried out through 188 Vet Centers. These resource reductions will result from a gradual phasing down of the

Readjustment Counseling Program according to the budget language. The American Legion supports a continuation of the Vet Center Program, contingent on a plan wherein decisions on assimilating the Readjustment Counseling Program into the VA medical centers, will be made on a case by case basis, as the utilization of services diminishes. The nationwide workload totals for the Vet Center Program in FY 1987 show the highest levels for new veteran clients and total cumulative visits since the inception of the program. Therefore, we adamantly oppose the idea of reducing the funding or the employment level.

The American Legion commends the establishment and funding of a VA Homeless Veterans Program during FY 1987-88, made possible by Public Law 100-71. Of the $20 million in funding obligated for this program in FY 1988, a total of $15.5 million was programmed for the operational expenses of patient care in VA domiciliaries and community-based residential care facilities, and $4.5 million is planned to convert existing, underutilized VA hospital beds to domiciliary beds. The American Legion is concerned, however, that the resources necessary to maintain the Homeless Veterans Program in FY 1989 and beyond will be funded within the overall medical care base budget. Obviously, in order to continue a program of any magnitude, it will require additional recurring resources.

The VA is in the process of establishing four specialized Acquired Immune Deficiency Syndrome (AIDS) treatment centers beginning with FY 1988 resources. This action can effect cost-efficiency and help to promote necessary specialization for the treatment of AIDS. We caution, however, this program also will require annualized funding.

A net decrease of $34.4 million is projected in the medical care capital investment program for FY 1989. In order for the VA medical centers to provide high quality patient care, adequate medical technology and Automated Data Processing (ADP) needs must be met. We urge this Committee to ensure that sufficient funding is provided to the VA's Department of Medicine and Surgery so that a proper capital investment program is maintained.

Adequate funding of education and training programs is a key ingredient to maintaining high quality health care. We are appreciative to note the Administration has requested an increase of funding and FTEE levels to support this aspect of the VA's mission in FY 1989. Also, we are supportive of a proposal to increase tuition support funding for VA health care personnel and to continue the Health Professional Scholarship Program. These initiatives will help support the recruitment and retention of scarce allied health personnel, particularly nurses.

The VA medical care budget for FY 1989 represents an increase of $208 million above the previous year's level. Mr. Chairman, we are concerned that the medical care program continues to expand and acquire new responsibilities while the medical care program budget continually diminishes in constant dollars.

The American Legion fully supports and encourages the VA to ensure that its medical care programs keep pace with the needs of the aging veteran population and also meet the spectrum of needs of the rest of the veteran community. In order to do so, we believe that annualized funding increases are necessary to offset the development of new medical care programs and for the continuation of previously established programs. Also, we believe employment levels must be maintained in sufficient strength to properly fulfill the health care mission of the Department of Medicine and Surgery. We are pleased to see the modest emphasis on an expansion of extended care programs for FY 1989, as well as the activation of new initiatives. A primary concern, however, is the fact that most new FY 1989 medical care initiatives will be accomplished through a redistribution of the proposed budgetary authority, rather than from new resource support.

Medical and Prosthetic Research

An increase of $11.3 million in research funds is projected for FY 1989, up to $204.2 million.

It should be noted, as described in the budget document this appropriation provides funding for program activities in the following areas:

Medical Research: Efforts in this area fall into two broad categories: research on medical, dental and psychiatric problems that are specific to the veteran population (spinal cord injury, Agent Orange, etc.); and research on general health problems that are particularly prevalent among veterans (e.g., alcoholism, aging and schizophrenia). Most of the investigators are VA clinicians and the close links between the research and patient care functions give the research program a clinical orientation that is directly related to its goal of providing quality medical care to the veteran patient.

Rehabilitation Research: This program focuses directly on the needs of the veteran who is functionally impaired as a result of amputation, paralysis or the loss or impairment of his or her vision, hearing or speech. The latest computer and other technological advances are used to develop devices, techniques and concepts in rehabilitation that will minimize the disability and promote functional independence among disabled veterans.

Health Services Research: The goal of this research is to improve the effectiveness and efficiency of the Veterans Administration's health care delivery system. Health services researchers develop and disseminate information designed to help clinicians, investigators and administrators select medical interventions and administrative actions that are most appropriate to the Agency's mission, which is the provision of quality medical care services to the veteran patient.

The Veterans Administration's Medical and Prosthetic Research program is a matter of particular interest to The American Legion, as a result of our sensitivity to the importance of research in the triad of the VA health care program: clinical care, education of health manpower, and research. These three functions cannot thrive independently - the presence of the other two is required. It would be impossible for the Veterans Administration to continue the provision of high quality medical care without a strongly funded research program. As this Committee knows, much of the research in which VA engages is basic research that is advantageous not only to veterans, but is of direct benefit to all mankind. Equally as important is the fact that a strong research program ensures the recruitment and retention of high quality physicians into VA service.

Average employment reflects losses of 95 FTEE in medical research and 15 FTEE in health services research, and no change in rehabilitation research, for a total of 4,407 FTEE. Available information does not reflect how these losses are to be accomplished. However, we are concerned, as we maintain that there is a need not for a reduction, but for an increase in available personnel for VA research activities. The Federal Government could make no wiser an investment than ensuring a vigorous and viable VA research program that benefits the entire American people.

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

An increase of $1.7 million, to $42 million is proposed for grants for construction of state extended care facilities.

The American Legion is extremely aware of the importance of the services provided by state homes, in that they have substantially reduced the burden that otherwise would have been borne by the Veterans Administration. As of January, 1988, 35 states had established state homes. Since some states have more than one home, there is a total of 52 homes and 3 annexes. During FY 1987, the state homes maintained an average daily census of 8,561 nursing home, 4,117 domiciliary, and 487 hospital patients.

The FY 1989 request will provide for five projects which will produce 732 nursing home beds, 22 domiciliary beds, and nine nursing home renovation projects in five states.

Mr. Chairman, we note that proposed legislation is being considered that will increase per diem rates for state home care. Almost $19 million have been identified as the total resources required to complete this action. The American Legion fully supports this increase, as we are mandated under Resolution No. 195 of the 1986 National Convention, to support an annual review and revision of the rates of reimbursement by the Veterans Administration for the care provided veterans in state veterans homes.

The last increases in per diem rates were set forth in P.L. 98-160, effective April 1, 1984. We are aware that 38 USC 641(c) currently requires the Administrator to submit a report every three years to the Committees on Veterans Affairs on the adequacy of the per diem rates payable to each state for domiciliary, nursing home and hospital care for each veteran receiving such care in a state home. The American Legion believes that the fair sharing of the cost of providing extended care for elderly and disabled veterans will encourage states to meet the needs of the aging veteran population, and we urge that the per diem rates be reviewed, keeping in mind that they have not been increased for four years.

The American Legion considers this program a wise investment, and when considering the ongoing efforts to reduce Federal spending, the role of the state homes is even more significant. As we move into the period of an aging veteran population that will be with the nation for the foreseeable future, the states can be of major assistance to the Federal Government in caring for this population through state extended care facilities. However, in order to materially ease the pressure on the VA, adequate funding must be provided to the states so that proposed projects may be completed.

Grants To The Republic of the Philippines

The budget message provides a grant of $500 thousand to the Veterans Memorial Hospital in Manila to replace and upgrade equipment and to rehabilitate the plant and facilities. This grant has been made by the United States consistently since the end of World War II. The Veterans Memorial Hospital cares for many Filipino veterans who served in the Allied cause during WWII. There is certainly an obligation by this country to continue to show our gratitude and concern for them. The American Legion continues its support for this grant.

CONSTRUCTION PROGRAMS

The budget proposal recommends a decrease in the VA's construction programs of close to $22 million, down to $500.6 million. Replacement and modernization of exisiting facilities is funded at $127.9 million for FY 1989. This level is in contrast to more than twice that amount in FY 1987 and a reduction of $62.3 million from the current year level. No money will be reprogrammed from the major working reserve.

Mr. Chairman, we believe specific sections of the Administration's construction proposal require further comment.

For the first time the Veterans Administration proposes changing the minor construction cost limitation from less than $2 million to less than $3 million. Correspondingly, the major construction account would fund projects costing $3 million or more. Initially, we believe this change could improve the method by which minor construction projects are obligated, by lessening the degree of preliminary oversight and by reaching contractual awards more readily.

The Administration's budget request provides $367.8 million for major projects, $123.8 million for minor projects and $9 million for the parking garage revolving fund.

Among the major medical construction projects for which funding has been requested is a medical center modernization project at Newington, CT; a replacement medical center at Pittsburgh, PA (Aspinwall Division); clinical improvements and a Mental Health and Behavioral Sciences Center at the Indianapolis, IN VA medical center; a clinical addition and parking garage at the Atlanta, GA VA medical center; and a 600-bed replacement domiciliary at the Mountain Home, TN VA medical center.

Other significant major construction proposals include a 120-bed nursing home care unit addition at the Tampa, FL VA medical center and clinical improvement projects at the following medical centers: Beckley,WV; Nashville, TN; Perry Point, MD; and a new 30-bed spinal cord injury unit at the San Antonio, TX VA medical center. Major renovations and fire and safety improvements are proposed for VA medical centers at Montrose, NY and Leavenworth, KS. Funding for the relocation of the Montgomery, AL Regional Office to agency owned grounds is also proposed.

The American Legion supports all of the above mentioned construction projects and we also realize there are many more projects urgently needed throughout the Veterans Administration system. As we have said many times before, the capital plant of the VA system is a multi-billion dollar investment by the Federal Government, and it must not be allowed to deteriorate.

While we are appreciative of the VA providing grants for the expansion of state home extended care facilities as discussed before, we must again express our concern that the VA must also expand its independent nursing home care unit construction. The proposed 120-bed nursing home addition at the Tampa, FL VA medical center, while badly needed, will not appreciably lessen the demand for this level of care in that state. New VA nursing home care unit activations, through new construction and by conversion of underutilized hospital bed space, in conjunction with state home programs, will all be required to provide long-term care to increasing numbers of eligible aging veterans.

Mr. Chairman, we have been requested to address the issue of the adequacy of VA efforts to develop and implement health-care programs providing appropriate alternatives to institutionalization.

The American Legion has over the past several years consistently supported the practice of maintaining the veteran patient in the community as much as, and for as long as possible. In our analysis of the VA report entitled "Caring For The Older Veteran" it is pointed out that in looking to the future from the Legion's standpoint, we will have to realize the fact that many more veterans will be receiving health care in community settings under the Veterans Administration's guidance. Cooperative efforts with community programs are already underway to a limited degree. It is important that these efforts be expanded, and that liaisons with community resources that share VA's interest in the aging are maintained. In addition, our analysis of the report emphasizes that alternative care programs featuring noninstitutional care settings must be aggressively pursued to help contain costs.

On a number of occasions during hearings before this Committee, we have stated that it is our intent to encourage both Congress and VA to foster the development and implementation of all of the innovative techniques that can be used to both make the system more cost-effective, and able to care for the largest number of patients.

The Veterans Administration currently has several programs that provide appropriate alternatives to institutionalization, including, but not limited to, Adult Day Health Care (ADHC) program, Hospital Based Home Care (HBHC), Community Residential Care program (CRC), and Hospice and Respite Care programs. Upon review of these programs we find that all of them predominantly serve an extremely frail veteran population.

In reviewing the general demographic characteristics of the clientele served for the ADHC program, we find that in 1987, 33% of these veterans were service-connected veterans. Moreover, 76% of the total population served in this program were veterans of World War II, and 12% were World War I veterans. The average age of ADHC patients was 72 years in 1987, while 34% were 75 years or older. Veteran enrolled in this program are, for the most part, extremely disabled individuals.

In regard to the ADHC program, The American Legion recognizes two areas of concern that hinder the overall effectiveness of this program. As is the case with virtually any Day Health Care operations, transportation to and from the center of operation continues to be a major problem for the patients. Either the available methods of transportation are so expensive that they are cost prohibitive for the veteran, or transportation is just not available.

The second concern we noted within the ADHC program pertains to eligibility restrictions, in terms of how long a veteran-patient can remain in the program. For the nonservice-connected veteran, the 6 month limitation prevails, as defined for the community nursing home care contract program for these veterans. The problem therefore exists wherein veterans must find other alternatives after 6 months in the program. The bigger problem, of course, is the limited availability of such community system more cost-effective, and able to care for the largest number of patients.

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In reviewing the HBHC program we note that expansion of this program has been, on the surface, noteworthy. However, it becomes necessary to further examine the source of funding for these new programs, before determining their longevity. For instance, we find that during FY 1987, 20 new HBHC programs were implemented, and VACO provided funds for only 4 of them. The remaining 16 programs were funded through the medical regions. A similar scenario is being reviewed for this fiscal year. Meanwhile, there are a number of stations that are prepared to implement a HBHC program, once funding is provided. Eighteen such stations were identified in the 1986 MEDIPP plans. Although the statistics are not yet available, it is anticipated that many more field stations will be so identified in the MEDIPP plan for the current fiscal year. The importance of and need for expansion of this cost-effective treatment modality throughout the VA system is clearly evident. However, adequate funds are needed to implement the additional programs.

The HBHC program, while maintaining an average daily census of 3,433 patients, recorded 246,460 home visits during 1987, and treated 13,379 veteran-patients. It is important to note that this program provides primary medical care to veterans over 55 years of age, who are chronically ill, in their own homes. The average age of the clientele served during 1987, was 69 years. Statistics for FY 1987, showed the average cost per patient day to be $10.09.

Alternatives for veterans who are unable to take advantage of HBHC programs are virtually non-existent. Fee basis home care is one possible alternative, but is a short-term alternative that addresses only one medical problem. The need for specific funding for further expansion of this program is clearly evident.

The Community Residential Care (CRC) program has over 11,000 veterans enrolled on any given day, utilizing 3,200 different facilities. Over half of these veterans are service-connected according to a review of available information. The average monthly fee paid by the veteran, is $538.00 for room, board, and supervision. The Veterans Administration is involved in this program in terms of inspections, placements, and follow-up care.

Public Law 99-576 authorized VA to provide Respite Care to those veterans eligible to receive care in accordance with 38 CFR 17.47. The Veterans Administration defines Respite Care as hospital or nursing home care which: 1) is of limited duration; 2) is furnished in a Veterans Administration facility on an intermittent basis to a veteran who is suffering from a chronic illness and who resides primarily at home; and 3) is furnished for the purpose of helping the veteran to continue residing primarily at home. At this time, the authority for the Respite Care program terminates September 30, 1989.

Although several Respite programs are currently operational, VA is just now in the process of implementing it officially. Thus far, specific funds to establish Respite programs have not been available, and like Hospice programs, VAMCs are required to fund them from existing resources. A great deal of staff time is necessary in order to complete the administrative details involved with programs of this nature. Therefore, although the need for such programs is recognized in many cases, medical center officials are reluctant to implement them because of inadequate resources.

In reviewing the Hospice Care programs, we discovered that the Joint Commission on Accreditation of Hospitals (JCAH) is imposing extremely strict standards, which preclude many VAMCs from "officially" participating in such a program. Although many VAMCs have submitted proposals for establishment of a Hospice Care program, in reality, most do not have the necessary resources to implement a JCAH approved program. The need for additional support staff and related components to the Hospice Care program, such as establishment of a home care component in conjunction with the total program, are two shortcomings that JCAH continues to identify.

Mr. Chairman, as we have stated numerous times previously, The American Legion recognizes a need for, and will certainly support reasonable innovative treatment modalaties that will serve as alternatives to institutionalization, and maintain the veteran in the community.

DEPARTMENT OF MEMORIAL AFFAIRS

The proposed funding for the Department of Memorial Affairs reflects a modest increase of $299,000 above the 1988 current estimate. The projected average employment for FY 1989 is 1,203, which maintains the 1988 current estimate level.

Over the years, complaints from our field offices, directed at the Department of Memorial Affairs, have been minimal. As of late however, we have been informed by several of our Department Service Officers of delays within the headstone and marker program. Our review of the situation has revealed that some of the factors that have played a key role in the delays are temporary such as the ongoing conversion to computerization within the program. However, we also find that over the past dozen years or so, the workload has almost doubled, while allocated resources have not kept pace with this growth. Should this trend continue, as projections show that it will, more serious repercussions and delays will be realized across the system. According to VA's recently submitted Report on the National Cemetery System, there were to be an estimated 426,800 veteran deaths in 1987, increasing to over 610,000 in 2010. Annual interments are expected to reach about 86,500 in 2010. Based on these statistics alone, it is clearly evident that the Department of Memorial Affairs will encounter extreme difficulty maintaining the quality of service presently provided, without a substantial increase in personnel and funds.

The State Cemetery Grant program is a Federal grant program administered by the VA Department of Memorial Affairs to aid states in the establishment, expansion and improvement of veterans' cemeteries. Public Law 95-476 authorized this program.

The primary purpose of the program is to assist the states to provide gravesites for veterans in those areas where national cemeteries cannot fully satisfy the burial needs of veterans. The program is intended to complement the VA National Cemetery System. The VA provides up to 50% of the costs associated with the development, expansion or improvement of a state-owned veterans' cemetery.

For the last two years, VA has not requested additional resources to support this program because carry-over money has been available. Funds allocated to this program can be carried over for three years.

This year however, the Department of Memorial Affairs has identified requests for funding from various states which total almost $12 million, thereby fully justifying the $9 million included in the budget proposal to support this program over the next three years. The American Legion recognizes the importance of this program, and fully supports the $9 million proposal.

VA HOME LOAN PROGRAM

Mr. Chairman, your letter of request indicated that in addition to our comments on the President's budget, you also sought our views on S. 2049 and appropriate ways of dealing with the substantial increases in the cost of the VA Home Loan Guaranty program over the past ten years. Although the budget, the proposed legislation and the program's cost problems are interrelated, we will address them one at a time, beginning with the proposed budget.

We certainly share the concern of the Committee over the apparent hemorrhaging of the Loan Guaranty Revolving Fund (LGRF), which since 1984 has required appropriations to remain solvent. Fiscal years 1988 and 1989 will require the largest appropriations in the history of the program, at $389 million and $658 million respectively. From these numbers, the program appears to be sinking ever deeper into a financial morass. Certain features in the budget, however, we believe will exacerbate the problem, rather than begin to resolve it.

For example, the President's budget proposes to conduct a sale of virtually the entire remainder of the Direct Loan portfolio held by the VA, thus eliminating entirely the availability of whatever income is received in this program for use in offsetting deficits in the LGRF. We believe this is the last installment in a series of unfortunate decisions which have placed the short-term cash advantage of such portfolio disposal, over the long-term income needs of the home loan program. We will discuss that issue in more specific terms later on in our testimony.

We note also that in the face of the need to aggressively market outstanding inventory, as well as to provide services such as foreclosure counseling that have been mandated by P.L. 100-198, the proposed budget actually would eliminate 75 positions from the Loan Guaranty Program reducing overall staffing from 2,100 to 2,025 FTEE in FY 89. This reduction comes upon a 25 FTEE reduction for FY 88. We believe this is a poor, not to say premature, managerial decision, and recommend its rejection.

As a final, rather bizarre, twist to the depressing news this budget brings, the

Administration will request legislation to "reform" Federal credit. This legislation will supposedly calculate in dollars the benefit granted by the Federal Government in each of its credit programs and deposit such a sum for each transaction in the Treasury. As we understand this measure, the dollar value of the benefit which the home loan program grants to veterans is estimated to be 6.6% of the loan principal. It appears as if this fund will eventually replace the Loan Guaranty Revolving Fund--and indeed all similar funds--as the source of revenue to settle claims, manage property, and acquire homes. This proposal raises many questions. What authority, for example, would this legislation give the Treasury over program policy? We suspect that Treasury could conceivably be put in the position of dictating program operations to the VA. Equally as important, we are not so naive as to believe that the Federal credit "reform" legislation would represent merely a transfer of pay out authority. Instead, it would appear to us that the Federal credit programs involved are being targeted for abolition by those elements in the Office of Management and Budget who believe that the Federal Government does not belong in the credit market under any circumstances. Certainly, the high potential cost of this legislation would form a strong justification for eliminating programs such as Loan Guaranty. While all of us are agonizing over a $685 million appropriation for the LGRF in 1989, the Administration's proposal would add another $1.3 billion to the cost of the program--and that is only in the first year. The most charitable interpretation we can render of this proposal is that it constitutes an extremely costly form of mortgage insurance. The American Legion thus strongly opposes this or any other legislation which would remove, or have the potential of removing, the home loan program from the control of the Veterans Administration and oversight of the Veterans Affairs Committees. In addition, if the Administration is interested in spending an additional $1.3 billion, we can think of far better ways to use that funding to stabilize the LGRF.

Quite obviously, reducing the cost of the VA Home Loan program, and stabilizing the LGRF is a high priority for the Committee, the VA and The American Legion. It must first be recognized, however, that there is no quick fix to the problem. We congratulate the Committee for the initiative it has shown in the development and enactment of P.L. 100-198, which attempts to come to terms with the problem. We will not, however, see the benefits of this legislation or its immediate predecessors, for several years. The home loan program is still paying for the high inflation, high interest rates, and related ancillary problems which had their origin early in this decade.

The American Legion believes that addressing the financial problems of the Home Loan Guaranty program requires two approaches. The first, attempting to tighten and improve underwriting within the agency, has been the focus of the Congress's efforts over the last several years. As we have indicated, the results of these efforts are not likely to show up immediately since foreclosures resulting from loans tendered in previous years under different conditions are still very much with us. Congress has also attempted to improve the VA's marketing of properties which we believe has improved the agency's inventory generally. Yet, the collapse of oil prices has led to severe real estate price deflation in areas such as Texas, Oklahoma, Louisiana and Colorado, so that fully 40% of the agency's total inventory of properties at the end of 1987 was concentrated in just these four states. It has been suggested that the VA should acquire foreclosed properties only if loss on such properties is less than if the agency simply were to pay the guaranty. That appears to make good financial sense to us. What concerns The American Legion, however, is the effect such policy might have upon the future availability of credit in economically depressed areas. We might suggest that as a corollary to such policy, the Committee might want to examine the feasibility of opening up the Direct Loan program to accomplish its original intent: to make available loans in areas where credit for VA guaranteed loans is not available.

This brings us to the second approach to dealing with the growing cost of the Home Loan program which we believe deserves serious study. The demise of the Direct Loan program, and the sale of its portfolio over the years has all but dried up a valuable internal revenue source for the Home Loan program as a whole. The American Legion notes that in the report of this Committee's hearing of February 29, 1984 on Housing Issues and the solvency of the Loan Guaranty Revolving Fund, the Committee states that, "the source of the current solvency crisis facing the program is not simply the existence of deficits--for it is clearly in the nature of the program to operate at a deficit--but rather the drying up of the traditional source of funding these deficits...this source of funding is now virtually exhausted."

If it is acknowledged that the Loan Guaranty Program is designed to operate by its very nature at a deficit, and if the Direct Loan program no longer has the resources to offset such a deficit, it seems to us that Congress has two choices--either accept the need for continuing appropriations for the program, or begin reestablishment of a revenue source which could, within perhaps seven to ten years, supplant the need for general revenues to support the program. A moment ago, we suggested opening up the Direct Loan program in areas which become credit short as a result of the VA's determination that it is in the best interest of the solvency of the program to pay off the guaranty, rather than acquire the property for resale. We believe that a revenue-generating portfolio could also be built with vendee loans which are retained by the agency, rather than sold. While this course of action obviously has budgetary implications over the short-term, we believe that it represents a serious long-term alternative to the program's financing problems. In any case, it would most certainly be less costly than the Administration's Federal Credit Reform proposal, and merits serious study.

Indeed, the development of an internal revenue source should be one of the focuses of the independent Commission which is proposed in S. 2049. The American Legion could support the establishment of such a Commission with two modifications.

First, we believe that the bill should emphasize in the Commission's charge, that any recommendations made should be unequivocally in the best interest of the veterans the VA Home Loan Guaranty Program was designed to serve. The American Legion wants to preclude the possibility of a "runaway" Commission in the hands of ideologues such as those who proposed the Federal Credit Reform initiative. The interest of America's veterans from taking on mortgages which they cannot afford are not entirely appropriate. What we are suggesting is that the program's original purpose, to permit veterans who do not have the cash resources or an established credit history to purchase a home, should not be shunted aside in the course of the Commission's deliberations.

Second, we believe that the veteran community ought to be represented by a third seat on the Commission. Veterans are, after all, the program's consumers-not bankers, nor realtors. Provided the interest of veterans is adequately protected, as suggested above, we believe that an independent Commission could do some highly creative work in helping to resolve the financial problems of the program.

DEPARTMENT OF LABOR PROGRAM BUDGET

Turning to the Department of Labor, you are probably aware, Mr. Chairman, that H.J. Res. 395 had the effect of mandating an across-the-board reduction of 4.26% in all of the Department of Labor's programs during FY 1988. Despite our work with this Committee and the Appropriations Committee during the 1988 budget process to assure that veterans employment programs were funded at $145.8 million, these programs were ultimately forced to operate at a level of $139.5 million. The American Legion has often testified that we would not oppose budgetary restraints on veterans programs provided that such restraints were fairly applied to all Federal programs. In the case of the Labor Department programs, the 4.26% reduction does indeed appear to have been applied uniformly. The consequence of this cutback on veterans' programs, however, has taken an unusual twist. The Solicitor of Labor ruled recently that the Department-wide reduction could not apply to the Disabled Veterans Outreach Program (DVOP), since the number of positions to be funded by the Department were determined by formula in statute. Since the veterans program function itself was still subject to the 4.26% cut, however, funding for the Local Veterans Employment Representative Program was required to absorb its own reduction, as well as the reduction in funding which would have otherwise been applied to DVOP. This has translated into a cutback in the number of LVER base positions from 1,379 in 1987 to 1,252 in 1988 and 1989, or about 9%.

This development is particularly ironic in light of the hard work that this Committee performed last year in the creation and passage of S. 999, which would establish in law a formula for determining the number of LVER positions. According to both S. 999 and its House counterpart, the position strength of the LVER program would be established at approximately 1600, or 348 more positions than either the FY 1988 or proposed FY 1989 budgets will fund. Yet the LVER program is faced with reductions owing to the failure of Congress to pass a conferenced version of these measures. While The American Legion recognizes how demanding the press of other business has been on Capitol Hill for the last six months, we are concerned that time is running out for S. 999 to have an impact on either the FY 1988 or 1989 budgets. As a consequence, the LVER program is facing the prospect of major staff reductions, and FY 1989 funding for the National Veterans Training Institute is in doubt.

We also note that the VA's budget for FY 1989 contains no funding request for the Veterans Job Training Act, which under current law will expire in June of this year. S. 999 will provide for a multiyear operation of the program.

The American Legion therefore strongly urges the Committee to promote final action on S. 999 in sufficient time to impact the FY 1989 budget.

The funding difficulties in the LVER program are not the only obstacles faced by veterans in the Employment Service System. The proposed budget for regular Wagner-Peyser grants for FY 1989 would reduce ES funding from $723 million in 1988 to $678.5 million in 1989. This cutback comes on top of a reduction in Wagner-Peyser grants from their current Program Year 1987 level of $755.2 million. In actual dollars, Employment Service funding over a two-year period is being cut by 10 percent. This reduction is further compounded by an increase in salaries and benefits of four to six percent, mandated by state legislatures, and inflation increases in rents, telephone, and other services. Mr. Chairman, the efforts of the Congress to improve services to veterans under S. 999 will be counteracted by reductions in base funding of the Employment Service System. For better or worse, the ability of the Job Service to serve veterans depends on the overall integrity of the system itself. As you know, the Employment Service, including the LVER and DVOP programs, as well as the operation of the Office of the Assistant Secretary for Veterans Employment and Training, is financed by Federal Unemployment Trust Fund Act (FUTA) monies. The Department of Labor estimates that the FUTA fund will have a surplus of $1.5 billion by the end of FY 1988. These monies cannot be used for anything other than Employment Service/Unemployment Insurance activities.

We therefore ask that the Committee work with your colleagues on the Labor and Human Resources Committee to assure that further disintegration of the Employment Service is not allowed to occur.

CONCLUSION

Mr. Chairman, in this statement we have set forth for you and the Members of the Committee, the earnest opinions and positions of The American Legion on a variety of subjects that are included in the Administration's budget proposal for FY 1989 which we consider to be of special importance to the nation's veterans. We have addressed those programs we believe to be of highest priority in an agency whose activities are all of high priority, because they are intended to meet the needs, first of those who were disabled in war service, and then the reasonable needs of all those who served honorably when called to do so by this nation.

The proposed Veterans Administration budget for FY 1989 reflects an increase over the funding for the current fiscal year. However, it also contains some serious shortfalls.

For some reason, unknown to us, little if any attention is being focused on the impact that constant staffing reductions in the Department of Veterans Benefits is having on the quality and timeliness of the delivery of benefits and services to veterans. Amid lawsuits, complaints by veterans and service organizations, figures reflecting a deterioration of timeliness and a myriad of other negative factors, the Office of Management and Budget continues to chip away at the employment level of DVB.

Likewise, it is necessary to state again this year that the FTEE reductions in the Department of Medicine and Surgery are going to result in the erosion of the quality of medical care that is being provided American veterans. The number of health care professionals in the system simply cannot continue to be reduced.

The American Legion appreciates this opportunity to present its views on the FY 1989 budget, and we trust that the Committee will examine and consider the problem areas we have identified. We have commented specifically on those areas in which we feel there are the most glaring problems, and we have responsibly addressed each of the legislative initiatives with respect to the concerns of The American Legion.

Mr. Chairman, that concludes our statement.

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STATEMENT OF

VIETNAM VETERANS OF AMERICA

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before the

SENATE COMMITTEE ON VETERANS AFFAIRS

on

FISCAL YEAR 1989 BUDGET
FOR THE VETERANS ADMINISTRATION

MARCH 4, 1987

Mr. Chairman and members of the Committee, the Vietnam Veterans of America appreciates the opportunity to present its views on certain aspects of the recently proposed Fiscal Year 1989 budget for the Veterans Administration, legislation to make certain improvements in the VA home loan program and additional issues raised in the Februaruy 5 letter announcing today's hearing.

The additional issues consisted of five, the first of which concerns ways to deal with substantial increases in the cost of the VA home loan guaranty program over the past 10 years. This issue might well be addressed in connection with the home loan program legislation, S.2049, introduced on February 4. As a means of finding ways to improve the home loan program as well as encouraging a reduction in overall program costs, the legislation is an important initiative, one generally supported by the Vietnam Veterans of America, Inc. (VVA).

Apart from the legislation, however, a broader view of the general economic environment surrounding the program's problems over the last 10 years yields a different prospective. We have seen in this nation a watershed change in the economy from a heavy industry and manufacturing economy to a service economy. Many of the middle income factory jobs in this country have been lost for good and no similarly well paying jobs have replaced them. Individuals having been laid off in large numbers in both the rust belt and the oil dependent sun belt have been unable to secure equally paying employment. Many of these individuals have found jobs using various programs for veterans or dislocated workers, but without comparable salaries it should come as little surprise that VA home loan foreclosures have remained very high in spite of the end of the deep 1983 recession.

The second issue raised in the letter of invitation concerns the effects of significant reductions in DVB staffing over the past several years. According to DVB, staff levels have been cut some 40 percent in the last 10 years. Obviously this has had adverse effects. Perhaps more menacing than the staff reduction, however, are the efficiencies that have been imposed on the DVB in recent years. The DVB has, in effect, been required to produce more with less in the claims adjudication arena and the result has been poor quality decision-making at both the Regional Office and BVA levels.

The third issue concerns the adequacy of VA efforts to provide appropriate alternatives to institutionalization in light of the aging of the veteran population. The VA has taken some steps in this direction and examples include hospital based home care programs, care for homeless veterans in 525 domiciliary beds, residential treatment for homeless veterans in some 43 communities, community based care for the chronically mentally disabled and through the state home program.

To be sure, the VA has demonstrated more than a passing interest in other non-institutional health care iniatives (especially in conjunction with some of the affiliating teaching hospitals) in areas such as "mini" outpatient surgery, ambulatory medical treatment and diagnosis, and shorter psychiatric in hospital lengths of stays in conjunction with appropriate outpatient treatment and follow-up. However, this action and this interest in these areas may not represent, in terms of percentage of the total VA health care budget, a true commitment to the adequacy of VA efforts to develop and implement health care programs providing appropriate alternatives to institutionalization in light of the rapid aging of the veteran population.

We have no clear programatic indication of specific resource commitment as a function of a definite strategy in the over-all VA health care mission about what such alternatives are planned for. The need to cost out and identify such alternatives is clear because of a real potential to deliver a better more specifically targeted health product at a lower cost per unit of delivery. We know that some VA beds are inappropriately used for reasons often unrelated to the purposes for which the bed is intended. Moreover, we know that there are veterans lying in "expensive" beds who may be better served in the community in general, domiciliaries as outpatients, adult homes and supervised settings outside of the hospital. But these efforts take commitment beyond writing reams of papers on strategic planning. What percentage of the VA health care budget, for example, is dedicated to preventive health care efforts? Keeping veterans healthy and out of the hospital as long as possible is also an excellent alternative to institutionalization.

We recognize the institutional commitment the VA has to its medical teaching programs. Certainly, within certain contexts we see its value, but not at the expense of the veteran. This is especially true of the rapidly aging veteran in terms of alternative care options other than a hospital bed which ultimately puts that very institutional need above the veterans need to heal outside the sick environment. In short, and in spite of some good work, the VA efforts to develop and implement health care programs providing appropriate alternatives to institutionalization are less than adequate.

The effect on the VA health care system, in the fourth issue raised by the letter of invitation, of the enactment of the income-limitation/co-payment and health-insurance reimbursement provision enacted in sections 19011 and 19013 of the Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272) has been mixed at best. We understand the amount of dollars hoped for in this program has fallen far short of expected income. Aside from that, more than 94% of the veterans are exempt from the program as a function of the means test. Additionally, many veterans as category C's whose economic level requires them to pay a co-payment according to the rules express considerable anger at not having been forwarned at the VAMC regarding salary inquiries after receiving "inferior service with a bad attitude," and after having served this country.

We also note that even if the program did generate expected revenues for a given fiscal year, the money would be returned to the US Treasury rather than, say, allowing the Medical Centers to reinvest it in an attempt to improve the Center's image in the delivery of services. Veterans, like everyone else apparently are willing to pay for a good product but are disinclined to pay for what they perceive to be a poor product. To be sure, if a veteran has to pay a co-payment for health services, he or she will expect that services are delivered in a pleasant environment by pleasant, courteous, informative, efficient staff who treat them well in an attractive setting.

Of course, these same services should be expected without the co-payment feature. The assignment of veterans to catagory A status as a function of economic limtation is appropriate as long as such a veteran is not caught in a two-tier system for those who have and those who have not. On this point our experience is that such differences do not occur in the VA. Health care is just as bad (or good) for category A veterans as for category C veterans.

The health insurance reimbursement provision which in part allows the VA to bill third party carriers is probably a blessing in disquise. In order for the VA to receive funds from third party carriers, the VA should have to quantify and cost out their services. Further, the quality issue hopefully will have to be addressed by the VA as a result. The VA will at least have to look at itself in the market place of health care delivery. If the VA under-values its services and is willing to accept fewer dollars per unit of product than the third party payor reimburses other providers of health care services, the VA can by-pass close scrutiny of the kind and quality of services they provide to the veteran. A way to minimize such an effect would be to require the VA to use the Medicare and Medicaid rate schedules.

The home loan guaranty legislation, S.2049, that was introduced on February 4 would accomplish three things. First it would establish an independent commission on the VA home loan program for the purpose of conducting an overall review of the program with a view toward making adjustments to reduce increasing costs and otherwise improve the program. The VVA is supportive of this initiation but cautions the committee against a commission composed primarily of representative with an economic stake in any proposals ultimately made.

A commission overly weighted with realtors, bankers and builders, in our view, could only lead to a general discounting of the fact that the home loan program is first and foremost a veterans benefit program. We have seen in the past, for example, that realtors have opposed credit standards on assumptions, that bankers have supported negotiated interest rates and that builders have supported adjustable rate mortgages. All of these suggestions, in our view, are antithetical to the interests of the veteran for whom the program was designed to benefit.

Similarly, if the commission's focus is too heavily weighted toward finding cost savings, the veterans interest can again be expected to suffer. With this in mind, we submit that the commission members include more representation from veterans than is currently called for in the legislation.

The second aspect of the bill would allow the VA to reduce interest rates on vender loans so as to make sales from VA's inventory of foreclosed properties competitive. We fully support this with the understanding that VA has done a poor job of marketing these properties in the past at great expense to the VA home loan program.

The third provision would extend the recently enacted credit-worthiness requirements applicable to VA guaranteed loans to vendee loan assumptions. This should minimize the expectation of default and foreclosure by buyers of vendee loans and that makes good sense. Additionally, a .5 percent user fee would be imposed to which the VVA has no objection.

The VA budget submitted for Fiscal Year 1989 calls for $30.097 billion in budget authority and $27.9 billion in requested appropriations. By anyone's standards that is an enormous amount of money. The amount of money, however, is not the issue. The more important question is how the money is spent. Generally speaking, the VVA believes this amount of money is adequate to fulfill the agency's mission.

This year, as in each of the last seven years, we fully expect that the Congress will allocate resources for the VA using a different standard of priorities than those incorporated into the Administration's proposal. In this evaluation of the FY 1989 budget proposal, we shall offer comment on several facets of the VA's operation as a way of suggesting specific areas where resources should be focused. This general discussion will be followed by a more specific discussion of the legislation initiatives accompanying the FY 1989 budget proposal.

During fiscal years 1987-1988 VVA has had both the privilege and opportunity to work with the VA in attempting to find ways of improving the quality of care for the veteran. The VVA has worked with the VA on veterans health care issues by contributing significant input on program areas such as staff retention and recruitment, PTSD in the area of clinical and administrative management, DRG's and resource management, Agent Orange (particularly in attempting to get the VA to implement a more meaningful statistical data accumulation system at the medical center level), support for the Veterans Outreach Centers as an instrument of alternative care for which the veteran continues to express a great need, the strong and involved support for the Decentralized Hospital Computer Program (DHCP), Quality Assurance, initiatives in AIDs care for veterans, the Pilot Program on Hospital Management Efficiency, and organizational health care systems especially regarding the need to decentralize to name a few.

In many respects the VA health care system has gone forward in attempting to create alternative and meaningful health care. The providing of appropriate medical and psychiatric care for the homeless and placing them in community residential treatment settings in 43 communities is an example of one such program. The VA also appears to want to participate in joint ventures. For example, the VA/Air Force Joint Venture Hospital Resources Demonstration Project in Albequerque, New Mexico will not only expand health care options and horizons for the veteran but bring about a less costly health care system to the taxpayer without sacrificing the quality of care to the veteran. The VVA supports these efforts and all such efforts which will give the veteran the best opportunity to receive appropriate, efficient, courteous, and quality care. For FY 1989 there still will continue to be many vital health care issues that significantly impact on the veteran. The VVA has serious concerns about all of these issues and in this forum, we hope to advise this Committee of those issues which have the most serious implications for Vietnam era veterans.

Readjustment Counseling

The VA indicates that for fiscal year 1989 it will cut the Readjustment Counseling Program by $4.7 million and 79 FTEE. It is clear from the rationale for those cuts that the VA intends to seriously diminish the Veterans Outreach Center Program. It is also clear that the VA is not taking into consideration the clinical needs of the veteran using the program. It is well known by all concerned including the VA, Service Organizations and members of Congress that many Vietnam veterans do not trust the VA Medical Centers and will not go to the Medical Center to obtain the services they need and deserve. Additionally, VA's apparent attempt to institutionalize psychiatric ambulatory care into hospital settings flies in the face of modern psychiatric practice. Even though experts within and outside of the VA are aware of these modern practices, the VA appears determined to subordinate the clinical needs of the veteran to the apparent political needs of its administration. If we care about veterans this kind of interference with accepted clinical practices cannot be tolerated. Finally, if, in a worst case scenario, the approximately $5 million contract budget for this program is cut along with the proposed cut of $4.7 million and 79 FTEE, the approximately $41 million total program budget will shrink to approximately $29 million (estimating the average salary for Vet Center personnel to be about $28,000). This will effectively terminate the viability of the program in spite of a real need.

Moreover, in looking at the 1989 budget estimates for VA Medical Programs, one cannot help but wonder about the following statement under Workload Changes on page 5-3 in the VA's Medical Programs Fiscal Year 1989 Volumn II: "Includes an increase of $7.3 million for community nursing home care, offset by a reduction in the Readjustment Counseling Program of $4.7 million and savings of $9 million related to the elimination of ineligibles from CHAMPVA rolls." Does the VA really want to sent a signal to the veteran that Congressionally mandated clinical programs are as casually "offsetable" as swaping off one for another?

Agent Orange

There appears to be many divisions among scientists unable to agree consensus on whether there is a cause and effect relationship between the spraying of herbicides in Vietnam and the manifestation of certain illnesses. Millions of dollars by many institutions and individuals have been spent thus far in trying to either establish or disprove the relationship between dioxin and certain illness apparently to no avail. Apart from currently provided VA health care for veterans alleging health problems resulting from Agent Orange exposure and the opportunity to be listed on the Agent Orange registry, no decisions on compensation have been made. The VVA believes it is now time to authorize presumptive status on the Agent Orange issue while allowing a full review and assessment of all the research completed by a neutral third party such as the National Academy of Sciences. Further, the VA needs to begin developing and analyzing the tremendous clinical data base it has accumulated over the years from the many physical exams done and by virtue of the treatment given as a part of its Agent Orange Program. To date, and in spite of the considerable work this organization has done with the VA, the VA has still for whatever reasons been unable to put in place a meaningful Agent Orange program at the medical center level on matters concerning adequate and informed screening or institution of a veteran reception and documentation protocol at the clerk/intake level.

Inpatient Post-Traumatic Stress Disorder (PTSD) Programs

In a recent petition dated February 1, 1988 addressed to the Medical Center Director of the Chillicothe, Ohio VAMC, some veteran patients requested the establishment of an Inpatient PTSD program. Other veterans over time have also expressed what they felt to be a need for additional programs of this type. Currently, there are about 14 Medical Centers with specially designed inpatient PTSD programs involving about 444 beds. This organization as an active participant working with the VA is seriously concerned about the considerable variability among these programs with regard to average lengths of stay (anywhere from one to sixty days or more), the lack of manpower assigned to these programs, lack of clear goals and objectives in some cases, and the need to assure appropriate standards of clinical practice including allowing the veteran patient and relative (or significant other) to participate in the clinical process. The VVA feels there is more than enough documentation to give guidance to the Medical Centers in the management of these programs. We also believe there is sufficient documentation for the VA to determine how great the need for these programs continues to be. The VVA supports the establishment of more of these programs along with an overall improved system of clinical and resource management and we strongly urge the VA to investigate the need for more inpatient PTSD programs as soon as possible.

Mental Health Resources

Dr. Kenneth L. Davis as Chairman and Professor of Psychiatry at the Mount Sinai School of Medicine, and as a staff member at the Bronx VAMC in testifying before this body in 1987 noted that "...on an average day in the first half of 1987, 22,000 of 55,000 inpatients, or approximately 40% of all VA beds were filled by psychiatric patients. Another way to look at the activity of the VA with respect to psychiatry is simply to count the number of inpatients who were taken care of in the first half of 1987, and the proportion of those that had a psychiatric diagnosis. 561,00 veterans received inpatient care in the first half of 1987 for which 108,000 were psychiatrically ill. Thus by this measure of patients, that is independent of lenght of stay, 20% of all admissions to the VA's inpatient units in the last 6 months were psychiatric... In summary, 40% of VA beds are filled by psychiatric patients, they reflect 20% of all admissions and 22% of all outpatient visits." In spite of these numbers, as little as 10% of the VA health care budget has been dedicated to mental health. We need to be assured that the neuro-psychiatric patient receives a fair-share of the quality and quantity of care as reflected in the budget.

The "pull" of the medical teaching affiliation programs is towards acute medical and surgical care perhaps at the expense of both the psychiatric and long term care patients. We recognize that the teaching affiliations are both necessary and importnat and that they do operate in the areas of long term care and psychiatry. However, the VA might at least recognize the broad variability of psychiatric illness with or by the use of more discrete DRG assignments so that the resource needs in this area are more representative.

The Resource Allocation System (RAS)

Here too the VVA has very closely tracked the VA's management of its RAS since the 1987 budget hearings before this Committee. We have noted, regarding the RAS that the VA has moved considerably since then toward educating both the Medical Centers and other interested parties. The RAS has certainly attracted the interest of Congressional arms, such as GAO, especially in areas of mental health resources. We are hopeful this attention will send the necessary signal to the VA regarding the need to make this system more coherent. However, there are still some issues that need to be worked out. The system continues to be overly driven by VA Central Office. There is still little data validation with respect to the information input on the Patient Treatment Files (PTF) which partially drives the RAS. The Medical Center Director and staff still have no sense of "ownership" of the RAS. Some Regions do extremely well in the RAS in terms of attracting and holding dollars. Unfortunately, this is at the expense of other Regions who either may not be as talented or care enough to fight harder for their hospitals. There is still no reliable validation system for the RCS 10-0141 (Staff Resource Allocation Report). Given the size and the centralizating nature of the VA health care system, it may be unreasonable to expect a national current-on-line interactive RAS between VACO, the Regions, the Districts, and the Medical Centers. This is especially true considering the large numbers of administrative staff on all levels.

In view of the above concerns we make the following recommendation; the VA should totally abandon the VACO-driven Resource Allocation System. Other than specific guidelines, such as those articulated in the Pilot Program on Hospital Management Efficiency, the VA's role at the National level should be to facilitate the total decentralization of the local Medical Centers. The RAS too, should be developed and implemented at the local level. Unless this change is made, the current system, no matter how much the centralized bureaucracy decentralizes on paper it will continue to centralize. A stronly centralized VA in its current mode can never have the necessary flexibility relevent to a local hospital. Given proper local controls, local hospitals will be better positioned to identify and address local needs. For example, when a given private sector community hospital raises the salaries of its nurses, the local VAMC can never adjust fast enough to keep up. Consequently, some of the urban VAMC's cannot compete for nurses. This is also true for pharmacists, medical records libraians, physical therapists, and even medical record technicians.

State Home Program

The VVA strongly supports the program of Grants for Construction of State Extended Care Facilities. The request of $42 million in Fiscal Year 1989, however, is inadequate. This program has repeatedly demonstrated its value in providing veterans health care at less expense than the same care provided by a VA facility. With several applications for these grants pending, we believe a more prudent request would be for however much is needed to award grants to all currently pending applications.

About three years ago, it will be recalled, the VA adjusted its formula for how health care would be provided to the veteran by emphasizing the private sector and state homes. If the VA is genuienly interested in making such reliance possible, it has an obligation to provide greater resources to the state home program.

Legislative Proposals

The new budget proposal makes two legislative requests regarding compensation. The first of these would afford a 4.2 percent cost-of-living adjustment (COLA). The VVA supports this with the usual caveat that should inflation in the economy be higher than 4.2 percent, the compensation COLA should be upwardly adjusted. The second proposal would index compensation COLAs in the future to the Consumer Price Index (CPI). The VVA opposes this proposal because requiring the Congress to approve a COLA each year affords an annual legislative vehicle for making other important adjustments in veterans programs.

In readjustment benefits the proposed budget recommends legislation to repeal the VA's authority to make education loans. The VVA opposes this. It's interesting to note here that the education case load in FY 1989 for Vietnam era veterans using the GI Bill is expected to decline by 36,535. This means a projected savings of $84.4 million. With cuts proposed in veterans unemployment, cuts proposed in the Vet Center program and substantial savings from education program case load reductions, it appears that this particular budget is weighted against the needs of Vietnam era veterans in favor of the apparent needs of older veterans.

The state home program under this new budget would be recommended for an increase in per diem rates. This proposed legislative initiative is supported by the VVA. Also in the general medical care area legislation will be proposed to expand the authority permitting tuition reimbursement for nurse training in degree course work. Given the shortage of nurses in the VA and the VA's need to compete with the private sector for medical personnel, the VVA supports this proposal.

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March 8, 1988

Chairman Alan Cranston
Senate Veterans Affairs Committee
SR-414 Russell Senate Office Building
Washington, D.C. 20510

MAR 11 REC'D

Dear Chairman Cranston:

This letter will respond to an invitation extended on your behalf at the March 4, 1988 hearing on the Fiscal Year 1989 budget submission for the VA. At the hearing we were invited to comment on any matter arising from the hearing we wished to expand upon. The matter constituting the subject of this letter is health care. We described our views in our statement but some specific recommendations are in order.

The single most pressing issue involving the VA health care system is the quality of care and the services our veterans receive. The veteran is totally at the mercy of a system too large and too centralized to respond properly by providing adequate health care. The VA health care system is large with power too diffuse to be sensitive to the veteran's individual needs. For any given medical center, the VA health care system is too protected to feel any sense of accountability or responsibility to the individual veteran.

As noted at the budget hearings, the VA in today's complex health care arena cannot possibly manage 172 hospitals from one centralized authority or even seven regionalized authorities. This attempt to manage top-down is having a destructive impact on the quality of care of our veterans. The medical center director is literally torn between VACO, Regional, and even District VA interests. The medical center director by the same token is strapped into the politics of the press, the Congress, the affiliating medical and teaching institutions, and even the veterans groups. In this power field, the director can only react defensively. The individual veteran is the least of concerns in such a field unless he or she happens "to know someone" or is "connected." In short, the veteran for whom this system was allegedly designed has been excluded from it. The medical center director is in fact, because of VACO's dominant role regarding resource allocation, accountable to everyone and therefore to no one. The solution only begins with the following recommendations:

1. Form a board of veteran consumer directors at VA Medical Center (VAMC). This board should hold the VAMC director directly accountable for the management of the VAMC and the provision of quality service -- in all areas.

2. Formulation of a resource allocation system at the medical center level first. The VAMC should justify its programs and program

★ A not-for-profit national veterans service organization ★

needs by tailoring its resources to the needs of the veteran in the community in relation to the other services that are, or can be, provided in the total community. This may mean the VAMC will have to contract for some services and/or sell other services to sharing hospitals in that same community.

3. Eliminate the DM&S medical regions. Other than draining much needed resources at the medical center level, and serving as launching pads for internal VA political promotion, these regional offices can and do make little valuable contribution to the well-being of the individual veteran struggling to survive the VA medical center and the VA health care system in general.

Whatever the final solution is as the VA moves into the twenty-first century, it appears at this time to be beyond the current capacity of the VA to deliver quality care.

Sincerely,

Paul S Egan

Paul S. Egan
Legislative Director

PSE/jdw

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SENATE VETERANS' AFFAIRS COMMITTEE
BY
JENNIE L. STABILE
CHAIR, REAL ESTATE FINANCE COMMITTEE
MARCH 4, 1988

INTRODUCTION

My name is Jennie L. Stabile. I am a REALTOR® from Tarzana, California and the 1988 Chairperson of the Real Estate Finance Committee for the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 800,000 members of our Association, I want to thank you and the members of this Committee for the opportunity to present our views on veterans' housing issues, and specifically, those matters affecting the VA Home Loan Guaranty Program.

The NATIONAL ASSOCIATION OF REALTORS® continues to believe in the viability of the VA Home Loan Guaranty Program, and pledges its support to work with this Committee to ensure that the program continues to fulfill its goals and objectives of helping veterans buy and remain in their homes. We commend the efforts of the Chairman and the Senate Veterans' Affairs Committee during deliberation of the Veterans' Home Loan Guaranty Program Improvements and Property Rehabilitation Act of 1987, Public Law 100-198. We were pleased to work with you on this important legislation.

The NATIONAL ASSOCIATION OF REALTORS® believes that it is imperative for Congress to develop a formal National Housing Policy that provides a reasoned framework in which to address this nation's housing needs. Homeownership is a fundamental American value. It is a primary goal for Americans of all ages and a major stabilizing force in our society. Housing policy for veterans should be developed within the context of a national housing policy. We urge Congress to resist the temptation to accept piecemeal solutions to veteran housing concerns. We commend the Chairman of the Committee, for taking the initiative in this effort and pledge our constant support in the future as the Committee continues to work towards fulfillment of this goal.

As requested, we are pleased to offer our comments and views on the following legislative proposals governing the VA Home Loan Guaranty Program.

1989 BUDGET PROPOSALS

CREDIT REFORM

The Administration is again urging legislation it has dubbed "credit reform". The claim is made that this legislation would merely change the way that federal credit programs are treated in the budget.

The mortgage credit programs of the Federal Housing Administration (FHA), the Veterans Administration (VA), and the Government National Mortgage Association (GNMA) are all affected by this proposal. The proposal, as originally submitted, provides that the Secretary of Treasury estimate "subsidy" levels of credit, as well as guaranteed loan volume, to be provided by these agencies, and that the Secretary develop estimates which would determine the appropriation for these programs by Congress. In effect, this proposal would treat loan guaranty programs as direct spending programs for federal budget process purposes.

This proposal, if adopted, will have a major impact on the federal mortgage credit programs and the way they are authorized and approved. The procedural mechanisms required and the degree to which the Treasury will control the subsidy estimates will affect the availability of these programs. If borrowers, lenders, and investors are uncertain that these programs will be available at all times, this uncertainty could result in an unwillingness to use the programs. These mechanisms will pressure authorizing committees to increase user fees rather than to seek appropriations to cover the Treasury Department's determination of an estimated subsidy. Moreover, the legislation would effect a combination of definition and procedural changes that would profoundly change how decisions are made and who makes them about each of the federal credit programs.

We oppose the addition of yet another layer of budget and appropriations procedures on these programs. Gramm-Rudman-Hollings imposed the requirement that all federal credit programs be subject to credit budget limits that place a ceiling on program activity. This requirement was intended to give Congress a "handle" on the level of federal credit. The credit reform proposal contained in the 1989 budget proposal does not remove the credit budget requirement, but adds an additional procedural layer.

These changes clearly would have major impacts on veterans loan programs as well as other loan and guarantee programs. We believe there are serious questions about the proposal which should be carefully examined. While credit "reform" was passed by the Senate last year as a part of the Gramm-Rudman-Hollings amendment, it has not been subjected to full committee hearings by any committee or been reported by any committee of this Senate or the House.

We urge your Committee to seek action as it can to assure that before any action is taken on the Administration's proposal it be subjected to adequate scrutiny and hearings by the appropriate Committees, including your own.

The NATIONAL ASSOCIATION OF REALTORS® appreciates the assistance you were able to provide our Association last year when credit reform was originally proposed and request that you once again join with us in our efforts to ensure that this controversial proposal be subjected to the necessary due process requirements provided for policy changes of this magnitude.

DEREGULATION OF THE VA NEGOTIATED INTEREST RATE

This proposal repeals the authority of the VA Administrator to establish the maximum rate which veterans may pay on VA-guaranteed home loans. This statutory change would allow veterans-borrowers and lenders to negotiate the interest rate on VA-guaranteed loans.

As this Committee knows, in 1983, the FHA administered rate was deregulated to allow for a rate as agreed upon by the borrower and the lender. The NATIONAL ASSOCIATION OF REALTORS® supported that modification, and believes that these significantly improved the ability of borrowers to utilize that valuable program. We similarly will not oppose legislation which would substitute the market forces of supply and demand for the artificial restriction on interest rates of VA-guaranteed loans.

The rapid increase in mortgage rates which occurred in March and April 1986 illustrates the need to allow competitive forces to determine the interest rate on VA loans. Although VA attempts to establish a rate which reflects the current market, the administered VA rate does not keep pace with market forces, particularly when mortgage rates rise rapidly or where the market is volatile.

We believe a negotiated rate on VA-guaranteed loans is an important step in keeping the VA Home Loan Guaranty Program responsive to the changing economic and financial needs of all veterans.

SENATE BILL 2049 - "VETERANS HOME LOAN PROGRAM IMPROVEMENTS ACT OF 1988

OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

The VA Home Loan Guaranty Program is an entitlement program established under the Serviceman's Readjustment Act of 1944. There was no congressional intent for the program to serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners.

We share the continuing concern over the financial stability of the VA Loan Guaranty Revolving Fund (LGRF). This Fund is responsible for paying both the program's administrative costs and mortgage claims. Unfortunately, the Direct Loan Revolving Fund (DLRF), which historically transferred its earnings to the LGPF when a deficit occurred in that Fund, was terminated in 1981 (except for a small number of loans for specially adapted housing). At that time, the Administration required VA to sell the majority of its direct loans. The result was the loss to the LGRF of the steady income stream from interest on those loans. To further compound the problem, the downturn in certain areas of the economy in recent years has caused an increased number of loan defaults and foreclosures beyond the control of the veteran homeowner. Additionally, there were underwriting and appraisal problems that were affecting the quality of VA loans that were being originated.

The NATIONAL ASSOCIATION OF REALTORS® believe these situations have threatened the viability of the VA Home Loan Guaranty Program by substantially increasing program costs, and resulting in the need for higher appropriations.

VA has already begun to take steps to deal with some of these problems, and should be commended for its efforts. Two years ago, the VA tightened its underwriting criteria and revised some of its appraisal practices -- policy changes that resulted in better protection of the fund's assets.

For instance, the new underwriting guidelines revised VA's existing minimum income standards for veteran homebuyers which, in the past, had been left to the discretion of the regional VA offices. In addition, the guidelines make adjustments in the types of debt which must be included in determining the veteran's monthly obligations. Finally, the standards establish a number of "benchmark" gross income-to-ratios which signal the loan underwriter to forward the application to a higher authority for review before approval.

The new appraisal reports completed by VA-designated fee appraisers, are received and reviewed by approved lenders, without VA staff involvement. The approved lender rather than VA staff determines and eventually certifies that an appraisal reflects market or reasonable value. The approved lender then closes the loan on the basis of its review. This procedure permits the local lender, with expertise in its own area and through a VA designated appraiser, to provide more timely service to the homebuying veteran. These changes have provided regional VA offices to operate more effectively under its current staffing constraints.

There are other actions which can be taken to reduce claims against the Fund. For example, we believe that voluntary deed conveyance can be an expeditious means of terminating a delinquent loan. This permits the veteran to voluntarily convey the property deed to VA, and in return, be released from liability to repay the government for any claim VA pays as a result of the loan termination. Voluntary deed conveyance avoids the often lengthy foreclosure process, and allows VA to acquire the property more quickly without the costs, including interest, taxes and legal expenses that attend foreclosure.

VA generally does not accept a voluntary deed if it believes that it can collect from the veteran the amount of the claim VA pays the lender as a result of the loan termination. However, in several regional VA offices, voluntary deeds are (have been) accepted if veterans were willing to sign a promissory note to repay the claim.

The NATIONAL ASSOCIATION OF REALTORS® believes VA should determine whether it is feasible to use this practice in other offices as a means for reducing the debt of the veterans and avoiding the considerable expenses associated with foreclosures.

INTEREST RATE ON VENDEE LOANS

Section 3 of this bill would require the VA to offer an interest rate for vendee loans which is lower than the prevailing mortgage market interest rate.

The Association recognizes that the VA frequently competes with homeowners in economically distressed areas who may be offering below market rate seller-financing to attract buyers for their properties. We are concerned, however, about the cost to VA for subsidizing these below market rate loans. The bill does not address how this cost would be estimated or how the subsidy would be funded.

Although we support efforts to expedite the disposition of VA's inventory, we urge the committee to investigate and evaluate the costs of offering below market rate financing to determine whether it is justifiable when compared to minimum cost alternatives such as aggressive property disposition programs.

ASSUMPTION OF VENDEE LOANS

Section 4 of this bill would extend the creditworthiness requirements applicable to VA-guaranteed loans--recently enacted in Public Law 100-198--to vendee loans. As in the past, the NATIONAL ASSOCIATION OF REALTORS® continues to oppose any legislation that hampers easy assumption of VA-guaranteed mortgages.

It is widely acknowledged that assumability has been instrumental in increasing the marketability of VA inventoried properties. In today's market where most fixed rate conventional mortgages contain "due-on-sale" clauses, the FHA and VA programs are one of the last bastions of fixed payment mortgage instruments which allow assumability.

Especially during periods of rising interest rates, the free assumability of mortgages has often substantially enhanced the value of a home. The buyer benefits because he or she can assume a loan below the prevailing market rate. This assumability also translates into a benefit for the seller by increasing the demand and thus, value for his/her home.

This change in the assumability of VA mortgages could also have a long-term, negative impact on the VA Loan Guaranty Revolving Fund. By requiring new underwriting guidelines, it is likely that potential homebuyers who, at one time, would be willing to take over the monthly mortgage payments from a financially distressed seller, will no longer be amenable to assuming the VA-financed mortgage because of the additional cost and the time imposed by the new requirement. As a result, financially-strapped homeowners with the VA-financed mortgage will have a few alternatives but to default on their VA mortgage.

The NATIONAL ASSOCIATION OF REALTORS® continues to believe that the veteran and the purchaser should be made jointly liable for the loan as an alternative to obtaining a credit check. The VA or approved lender would be required to explain this alternative to the veteran before a credit check could be instituted, and the veteran would have to certify that he or she was so advised. Utilizing this alternative procedure, a creditworthiness check is not required. Additionally, under this arrangement, liability for the loan will trnasfer automatically to the purchaser provided the loan is not in foreclosure after five years.

PROPERTY MANAGEMENT AND DISPOSITION

As we have previously testified before this Committee, the Association has been working with VA for 3 years to develop a cooperative effort through which REALTORS® and other real estate professionals can assist in disposing of their properties.

There are three components to this disposition program: real estate professional education, real estate community/agency relations, and disposition methods. In the majority of member states, the program has been successful in educating an increased number of real estate professionals regarding the proper procedures required for selling a VA inventoried home. We have found that many interested real estate professionals shy away from the VA's sales program simply because they are not well-informed. This cooperative effort has presented an opportunity for these individuals to learn the process and become involved in selling these properties.

In all cases, our members' staff and other real estate professionals have received cooperation, enthusiasm and interest from the regional VA offices. In some cases, our demonstration sites have established relationships with VA property management staff for the first time. In other areas, the program has served to improve and further existing relationships. Overall, we have found that each meeting has been successful in developing a better understanding between real estate professionals and VA property management staff. We have also found that simply initiating communication served to resolve what had been perceived to be long-standing problems between the two parties.

We have testified previously before this Committee about the success of our program in Northern California. Since that time, our program in Denver has developed to a similar level of effectiveness by providing real estate professionals with access to VA property information. Several local Boards have volunteered to place VA property in their MLS at no cost to the Agency. Denver REALTORS® feel this listing will provide an important means of disposing VA properties. Additionally, property descriptions, photographs, and details such as those used for private listings would greatly accelerate our members' showing of the property because of the time saved by the agent in not having to check out personally a property for which there is merely an address listing.

STAFFING

If we have learned anything from our visits to regional VA offices over the past 3 years, it is that the VA Home Loan Guaranty Program departments are understaffed and lack adequate resources. For example, our members and the regional VA offices has established a "computerized bulletin board," in which real estate professionals can access information regarding VA's listings. Not only can real estate professions call up a particular VA property listing, but they can also access the status of that property. The "bulletin board" concept appears to be a workable, yet cost-effective method to increasing exposure to VA properties. However, VA does not have the manpower to assign to the endeavor. This situation becomes even worse when we examine the staff and resources available specifically to the property management section of the Program.

The members of the NATIONAL ASSOCIATION OF REALTORS® are investigating every possible avenue to assist the VA in their property disposition efforts. In Denver, for example, members have even volunteered to send college students on a intern basis, to assist VA by answering the telephone, opening sealed bids or phoning prospective buyers that their bids were not accepted. Because of the confidentiality of loan applications, VA cannot accept this assistance.

The limited staff available to property management and disposition is working hard to dispose of these inventoried homes, sometimes in very creative, cost-effective ways. However, they simply need additional basic resources. Oftentimes, thre aren't enough funds to even keep an information "hot line" open for the public and the real estate community.

We believe that if this or any other program to increase sales of VA inventoried properties is to work, VA must be provided with the human resources to meet it goals.

CONCLUSION

Once again, we appreciate the opportunity to present our views on the proposed Senate legislation. I will be happy to answer any questions.

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS AFFAIRS
U.S. SENATE
on
THE VA HOME LOAN GUARANTY PROGRAM
on
FY'89 BUDGET PROPOSALS AND S.2049

March 4, 1988

Mr. Chairman and Members of the Committee:

My name is Shirley McVay Wiseman and I am First Vice President of the 150,000 member National Association of Home Builders. I am a single family home builder from Lexington, Kentucky. I have been active in the home building industry for more than 20 years and am familiar with both FHA and VA housing programs both as a builder and as HUD's Deputy Assistant Secretary/Federal Housing Commissioner.

NAHB is a trade association of the nation's homebuilding industry with almost 20% of our builder members involved in building housing financed under the Veterans Administration (VA) housing programs. According to NAHB's "Profile of the New Home Buyer," the VA Home Loan Guaranty Program was used by 13.3% of new single family home buyers in 1987.

Mr. Chairman, I am pleased to present our views on the VA Home Loan Guaranty Program. I would also like to comment on S.2049, which provides for the establishment of an Independent Commission on the VA Home Loan Guaranty Program, and the Administration's FY'89 budget proposals.

PROGRAM GROWTH

First, I would like to take this opportunity to address the Veterans Home Loan Guaranty Program overall. The program was initiated shortly before the end of World War II to help veterans returning from the war obtain homeownership. Because of their military service, veterans were unable to establish a credit record making it difficult to purchase a home. The VA entitlement has allowed veterans to purchase 12.7 million homes, totalling $306 billion since 1944. We are proud of the partnership we have had with the Veterans Administration in providing homeownership opportunities for veterans who have so ably served our country in the Armed Forces.

We support the action taken by Congress last year in passing one of the most comprehensive bills to improve the home loan program since its inception. Key among these improvements were an increase in the loan guaranty amount in high cost areas, exemption from the sequestration provisions of the Deficit Reduction Act, direct review of appraisals by automatic lenders, liberalization of refinancing restrictions, use of state data for residual income purposes, a downpayment on mobile homes and mandatory underwriting on assumptions.

LEGISLATIVE PROPOSALS

Mr. Chairman, we are pleased to comment on the legislative proposals in S.2049. We support the effort in this bill to establish an Independent Commission on the Home Loan program. In addition, I would like to thank you for your timely action in passing S.2022 which clarified and maintained the maximum level of benefit for which a veteran is entitled under the guaranty program. Both these bills also contain provisions concerning the VA's property disposition program which are addressed in general terms later in our testimony.

Independent VA Home Loan Guaranty Commission

We appreciate the concerns of the Committee in creating an Independent Commission on the VA Home Loan Guaranty Program. The Commission is to look into ways of improving solvency in the Loan Guaranty Revolving Fund, improving program benefits and assistance to veterans, reducing defaults and foreclosures, and disposition of VA properties in a cost effective manner.

It is important that the VA Home Loan Guaranty Program be sustained and run in an efficient manner. It is also important, however, that the entitlement nature of the program be acknowledged when seeking program improvements so that this VA benefit will continue to be effective in attracting qualified men and women into the service.

I would like to comment on the following areas where we feel the Commission should act: Solvency of the loan guaranty revolving fund; the piecemeal approach to placing fees on the program; alternative mortgage instruments; the loan guaranty amount and the impact of property disposition efforts on new construction.

Loan Guaranty Revolving Fund

Due to the economic downturn in many of our oil producing states, a number of VA homes have been foreclosed. This followed a period of record high interest rates and earlier downturns which occurred in the Northeast and other parts of the country. Such cycles can cause an increase in the level of losses to the Loan Guaranty Revolving Fund. However, we do not believe that temporary increases in foreclosures or downturns in certain parts of the country should lead to a cutback in the benefits of the program. Instead, Congress and the Independent Commission should focus on the long term goals and performance of the Home Loan Guaranty Program and evaluate program changes on this basis.

Such a review must recognize that the nature of an entitlement program is fundamentally different from that of traditional financing programs, and requires a higher level of commitment from Congress. Therefore, while NAHB continues to support deficit reduction as a means of keeping interest rates down and of creating a stable economic environment, we believe it is important that the Loan Guaranty Revolving Fund be supplemented by appropriations. We urge Congress to appropriate the required funds to sustain the program so that veteran homebuyers will not be denied homeownership opportunities.

Congressional funding to run the program is not new. From the program's inception, until 1961, the VA Loan Guaranty Program was funded through appropriations. From that time, up until the last few years, the program was basically self sustaining.

We urge that the Independent Commission carefully review and analyze ways to provide for the sound operation of the program in the future, without jeopardizing its entitlement nature, since the program continues to assist the people it was intended to serve. In the interim, it is important to continue to support appropriations for the program and to oppose increased fees to supplement the fund.

Funding Fees

Last year we reluctantly supported a two-year retention of the existing one percent funding fee to supplement the Loan Guaranty Revolving Fund and to assist in reducing the federal deficit. For the past three years, the Administration has asked for the fee to be increased beyond that passed by Congress. For FY'86, the Administration proposed an increase in the fee from one percent to 5%, unless the veteran chose to make a 5% downpayment. For FY'87, the Administration proposed a fee increase from 1% to 3.8% over a four year period. Last year they again proposed a fee increase this time to 2 1/2%.

While we are pleased that a fee increase has not been proposed for FY'89, and that the past fee increase proposals have been rejected, the Commission needs to address the piecemeal approach of funding the guaranty program with incremental fees, which erode the entitlement nature of the program.

Adjustable Rate Mortgages

Mr. Chairman, as you are aware, a pilot program for an adjustable rate mortgage (ARM) was dropped in conference on the VA bill passed last December. This ARM was to be patterned after the Department of Housing and Urban Development's ARM, which limits its interest rate increase to 1% per year with a cap of 5% over the life of the loan. NAHB continues to strongly support authority for the VA to guarantee ARMs. This is a very helpful mortgage instrument, since it could save a veteran about $100 a month on the average VA loan. It also enables more veterans to qualify in times of high interest rates, as well as allowing veterans a rate decrease without refinancing.

We urge the Congress and the Commission to support authorization for the VA to offer this type of mortgage instrument, since the VA is the only major market participant without an ARM. NAHB would be willing to work with the VA to develop information about the performance of ARMS to address the concerns of Veterans Groups about the safety and soundness of an adjustable rate mortgage.

Loan Guaranty Amount

We are concerned that last year's legislation reduces the loan guaranty amount that a veteran may receive at the lower end of the scale when he initially uses his entitlement. For example, on a $55,000 loan the veteran previously was allowed a guaranty of $27,500, but under the new formula he is limited to $22,500, a $5,000 decrease. If the guaranty amount were raised to 60% of the loan amount, or $36,000, which is the same as the Senate passed bill last year, the veteran would receive a guaranty amount of $33,000 (Attachment A). We hope that Congress will reconsider the impact of the new formula on the lower end of the market so that these veterans will not be denied homeownership opportunities.

Property Disposition Plans

Mr. Chairman, we are concerned that the property disposition plans being considered by Congress and the VA may adversely affect the new homebuying market. While the intent is to make the disposition of VA acquired properties more saleable in depressed market areas, care should be taken to avoid the "dumping" of properties which would make new home sales noncompetitive. We were especially concerned last year when VA-foreclosed homes in the Houston area were sold at 50% of sales prices in the market area. While Congress has taken steps to limit auctions as a last resort, careful consideration needs to be given to actions which might adversely offset home values in local markets.

An alternative to distressed sales of foreclosed property might be to hold the property in the Veterans Administration portfolio and put them on the market for a temporary period as rental units rather than selling them below market. This would accomplish several things: it would provide housing for citizens who cannot afford to buy; it would not disrupt the marketplace and; it would allow the government to sell properties over time as real estate values improve.

Composition of Commission

Concerning the composition of the nine-member Independent Commission, I would like to make the following suggestions.

1) You may want to consider increasing representation on the Commission to include more members from industry-related fields, such as homebuilding. These individuals and companies deal with the program on a daily basis and have direct knowledge of the successes and needs of the program. We would suggest increasing the four-member industry-related members of the Commission to five or six.
2) The Chairman of the Commission should be a member of the industry-related group chosen from those who have expertise in housing, home loan or real estate fields. A co-chairman might be appointed from the public sector and veteran-represented groups.
3) Ex officio members should specifically include a representative of the Government National Mortgage Association (GNMA) so that the effects and impact of the program on the secondary market can be fully assessed. As you may be aware, VA loans comprise one-third of the collateral of GNMA securities. In addition, almost all the VA loans which are originated are secured by GNMA. I would like to comment here that we were pleased with GNMA's prompt action in raising securities eligible for the program to $144,000 to accommodate the increase in the loan guaranty amount to $36,000. This is another example of their influence over the smooth running operation of the program.

ADMINISTRATION'S FY'89 BUDGET PROPOSALS

Mr Chairman, I would like to comment on the Administration's FY'89 Budget as it affects the VA Home Loan Guaranty program, including elimination of the administered rate, federal credit reform, and loan asset sales.

Negotiated Rate

The Administration intends once again to seek authority for negotiated interest rates on VA guaranteed mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the lender.

NAHB repeatedly has voted to support the administratively set rate. At our convention in January, a negotiated interest rate was again debated and voted down by our Board of Directors. NAHB has long endorsed the VA's ability to set the program interest rate, in order to protect the interests of the veteran and the guaranty fund. We believe that the administratively set rate will give veterans a better opportunity to obtain homeownership.

Furthermore, because of its sensitivity to market conditions, the VA prevailing rate continues to be an important national benchmark for mortgage interest rates. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose this stable measure of the cost of mortgage credit, a feature which becomes even more important in a volatile interest rate environment.

For these reasons, we continue to support the administratively set interest rate for VA buyers.

Federal Credit Reform

The National Association of Home Builders strongly opposes credit reform measures which attempt to restrict federal mortgage credit activities of the Veterans Administration and other government housing programs. The credit reform legislation supported by the Administration would change the way federal credit programs are treated in the budget. It would require federal agencies to seek direct appropriations from Congress equal to what the cost of borrowing from private sources would be without a guaranty. This approach reflects the Administration's position that the federal government should not have a role in providing housing assistance. We reject this proposal and urge Congress to oppose it also, since this is yet another attempt to restrict federal housing credit and ignores the entitlement nature of the program.

Asset Sales

We are concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies. Our concern is with the overall impact of the proposal upon the long term economic health of the various programs. In deciding which assets to sell, careful consideration must be given to assessing the true value of the income stream of the asset being sold. We urge that any short-term budgetary gain be balanced against the long-term loss of the income stream in determining the actual "value" of the asset sale and the long term implications and loss to the program.

CONCLUSION

In conclusion, we hope that careful analysis will be given to the following areas by Congress, the Administration and the Independent Commission on the VA Home Loan Guaranty Program.

- Preservation of the entitlement nature of the program.
- Long-term funding and performance of the Loan Guaranty Revolving Fund.
- Alternative mortgage instruments to provide homeownership affordability.
- The impact of property disposition plans on new construction.
- The effects of federal credit reform.

Thank you for allowing us to present our views. I would be pleased to respond to any questions you may have.

ATTACHMENT A

LOAN AMOUNT	60% up to $27,500 (Current Law)	40% up to $36,000 on loans above $45,000 with a $22,500 floor or 50% on loans of $45,000 and below (Compromise Agreement)	60% up to $36,000 (1987 Senate Bill S.9 S.1801)
$ 144,000*	$ 27,500	$ 36,000	$ 36,000
$ 135,000	$ 27,500	$ 36,000	$ 36,000
$ 125,000	$ 27,500	$ 36,000	$ 36,000
$ 115,000	$ 27,500	$ 36,000	$ 36,000
$ 105,000	$ 27,500	$ 36,000	$ 36,000
$ 95,000	$ 27,500	$ 36,000	$ 36,000
$ 85,000	$ 27,500	$ 34,000	$ 36,000
$ 75,000	$ 27,500	$ 30,000	$ 36,000
$ 65,000	$ 27,500	$ 26,000	$ 36,000
$ 55,000	$ 27,500	$ 22,500	$ 33,000
$ 45,000	$ 27,000	$ 22,500	$ 27,000
$ 35,000	$ 21,000	$ 17,500	$ 21,000
$ 25,000	$ 15,000	$ 12,500	$ 15,000

*** GNMA generally limits eligible securities to four times the loan guaranty amount ($36,000 x 4 = $144,000)**

Source: Compiled by the National Association of Home Builders, Government Affairs Division

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

ROBERT M. O'TOOLE
STAFF VICE PRESIDENT
RESIDENTIAL FINANCE AND GOVERNMENT AGENCY RELATIONS

of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

Hearings on

The Fiscal Year 1989 Veterans Administration Budget
and S 2049, the "Veterans' Home Loan Program Improvements Act of 1988"

March 4, 1988

Mr. Chairman and members of the Committee, I am Robert M. O'Toole, Staff Vice President for Residential Finance and Government Agency Relations of the Mortgage Bankers Association of America (MBA).* Accompanying me today are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Administration's proposed Fiscal Year (FY) 1989 budget for the Veterans' Administration (VA) home loan guaranty program and on S 2049, the "Veterans' Home Loan Program Improvements Act of 1988," introduced on February 4, 1988, by you and Senators Frank H. Murkowski, Lloyd Bentsen, and Phil Gramm.

Mr. Chairman, MBA wishes to express its appreciation to you and to the Senate Veterans' Affairs Committee for the consideration given in 1987 to the concerns expressed by the mortgage banking industry about the VA home loan guaranty program and for the passage of the "Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987," PL 100-198. MBA supported PL 100-198 and was most pleased that Congress acted expeditiously on it.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500.

MBA applauds the action, taken in PL 100-198, to increase the maximum guaranty amount to $36,000. The guaranty had not kept pace with the ever-increasing costs of homeownership inasmuch as it had not been increased since 1980. MBA believes that increasing the maximum guaranty amount will assist those veterans living in high-cost housing areas to become homeowners. However, we are concerned that the sliding-scale nature of the new formula may reduce homeownership opportunities for veterans purchasing in low-cost areas. MBA will monitor this situation and report to the Committee if problems arise.

MBA is also pleased that Congress did not increase the VA home loan funding fee from 1 percent to 2.5 percent as proposed by the Administration in its FY 1988 budget. The 1 percent temporary funding fee expired on September 30, 1987, and was extended for two years. While MBA opposes user fees for the home loan guaranty program because it is a benefit to which every veteran is entitled, MBA also recognizes that the solvency of the VA Loan Guaranty Revolving Fund is of vital concern to all participants in the guaranty program.

In addition, MBA is pleased with the provision in PL 100-198 that permits appraisals made by VA fee appraisers to be sent directly to VA automatic lenders to make the determination of reasonable value. This will both expedite the loan processing time and relieve overburdened VA staff from unnecessary paperwork so that VA staff can concentrate on functions that only the VA can perform. However, MBA would like to urge that the VA be encouraged to move as expeditiously as possible in carrying out this provision. There are many standards currently in use in the marketplace that the VA could use as models; thus the agency does not have to delay in setting new standards.

MBA is also grateful for the provisions in PL 100-198 that amended the application of the no-bid (a no-bid is a foreclosure of a VA-guaranteed home loan where the lender is required by the VA to acquire the property under the "no-bid" formula established by law based on the amount of the veteran's debt and the property's value) calculation in instances where a case is tipped into a no-bid because of the accrual of interest during periods of delay in the foreclosure sale caused by the VA not being prepared for the scheduled sale, by lender forbearance at the request of the VA, and by voluntary bankruptcy. MBA emphasized that lenders were being unfairly penalized in those cases because, absent the delays, the property never would have been left with the lender.

MBA believes that Congress intended in PL 100-198 to address specifically those cases where accrued interest, caused by delays, tipped the property into a no-bid situation. The legislative language leaves to the Administrator the obligation to pick a date earlier than the liquidation sale date for interest to cease accruing on the veteran's debt for no-bid calculation purposes in those cases of VA-requested forbearance and voluntary bankruptcy where the delay has been "excessive." MBA has urged the VA to carry out Congressional intention in regulations by defining "excessive" delay in cases of VA-requested forbearance and voluntary bankruptcy to mean a delay which causes a VA property acquisition to become a no-bid solely because of the interest accrued during the delay. This definition permits the claim payment formula on delayed foreclosure sales to be calculated on a case-by-case basis to target those delayed sales that the legislation was designed to help.

MBA is concerned about a possible interpretation of the legislative language that would stop interest rate accrual in all cases involving forbearance and bankruptcy—not just those cases resulting in no-bids. Such an interpretation would leave lenders in a worse position than before the Act and would add to losses rather than curtail losses in certain instances as the legislation intended. MBA urges that, if the VA issues regulations that apply this provision in all cases, then the Congress should take action. Legislation should be adopted which prohibits the Administrator from setting a date earlier than the liquidation sale date for the cessation of the accrual of interest in those cases of VA-requested forbearance and voluntary bankruptcy where the VA would acquire the property on the sale date because the net value of the property securing the loan exceeds the veteran's indebtedness (including accrued interest during the delay) minus the guaranty amount. Adoption of this interpretation—by regulation or legislative clarification—would ensure that mortgage lenders who participate in the VA home loan guaranty program are not worse off under legislation that was intended to offer relief.

Reinstatement of Partial Entitlement

MBA appreciates the swift action taken by you and the members of the Committee in introducing the "Veterans' Home Loan Program Emergency Amendments of 1988," S 2022, and ensuring its passage by the Senate to correct this situation. S 2022 restores a fixed maximum entitlement, i.e., $36,000, for every veteran so that an individual veteran's remaining partial entitlement for a guaranty is not a function of the amount of the loan for which the veteran is applying. The House has also acted quickly, clearing the legislation for signature by the President.

FISCAL YEAR 1989 VETERANS ADMINISTRATION BUDGET

Loan Asset Sales

The proposed Budget of the United States Government, 1989 (page 5-139) states that the Administration will seek to continue the executive branch's discretion to sell loan assets without recourse to the Government after 1989 when the current authority expires. The Budget Appendix (page Y-17) shows $781 million in proceeds from loan asset sales to the public. The VA Budget in Brief (page 39) indicates that beginning in the second half of FY 1988, all loans will be sold to the public without recourse, and that the VA will sell approximately $861 million of the VA loan portfolio by the end of FY 1989.

MBA opposes these administration proposals, as they would threaten the stability of the Loan Guaranty Revolving Fund. Sales of assets without recourse would bring in little revenue as the loans would be sold at distressed prices. The interest income from the loans over the long term would be greater than the income generated by a sale without recourse. Proposals such as these undermine the financial soundness of the fund and could eventually threaten the program.

Credit Revisions

The Administration's budget also states that under proposed "credit reform" an appropriation will be requested for estimated subsidies for the home loan guaranty program to recognize the "favorable financial terms" of the veterans' home loan guaranty program, compared with the terms under which borrowers obtain loans from private lenders. The budget assumes that an additional $1.3 billion in budget authority would be required in FY 1989 to reflect an estimated "grant equivalent subsidy" for federal guarantees on home loan mortgages, as well as direct vendee loans.

This proposed change to the budget process encumbers the VA home loan program with unnecessary and restrictive budgetary requirements, which MBA anticipates would not reflect the actual dollar cost of the program. MBA opposes these budgetary modifications on the grounds that they overstate the costs of the program, and MBA urges the Committee to oppose proposed legislation which would require these changes.

S 2049, THE "VETERANS' HOME LOAN PROGRAM IMPROVEMENTS ACT OF 1988"

MBA would like to offer its comments on S 2049, the "Veterans' Home Loan Program Improvements Act of 1988," which would create an independent national commission to study the VA home loan guaranty program and would make other changes to the program.

The Commission

MBA believes that the main focus of any assessment of the program should be the role it will play in the 1990s. Last year, MBA stated that Congress should decide whether the program should continue as an entitlement. The Commission's assessment is one way to explore this issue. There needs to be a balance established between veterans and lenders in view of the fact that lenders are bearing an ever-increasing share of the costs of the program despite the adoption of significantly tightened underwriting standards. MBA believes that lender representation on the commission should be commensurate with the costs and risks that increasingly are being borne by lenders.

VA loans have traditionally been 8 percent to 12 percent of the mortgage market. However, in recent years this percentage has declined. In 1986, VA loans were 6.8 percent of the market, and figures for the first three quarters of 1987 (the latest available) show a further loss of VA's market share, reaching a new low of 5.2 percent. This trend should be particularly troublesome to the Committee in light of the fact that for the same period the Federal Housing Administration's (FHA) market share increased from the 8 percent to 12 percent range in 1986 to approximately 20 percent in 1987. MBA believes this loss is attributable in great measure to the reluctance on the part of lenders to assume further risk in conjunction with the program. Lenders have, in fact, become coinsurers with the government.

Another reason for this loss of market share is the fact that the VA home loan guaranty program has no authority for an adjustable rate mortgage (ARM) product. The demand for ARMs increased dramatically in 1987, going from one-fifth of the market in April 1987 to two-thirds of the market in January 1988. Veteran homebuyers who prefer an ARM, or who can afford a home only with the lower initial interest rate afforded by an ARM, cannot use the VA home loan program to finance their home purchases.

The Commission would be an opportunity to explore these issues, as well as many others facing the program.

MBA would like to caution, however, that a number of recent Commissions exploring federally related mortgage credit programs have been focused on curtailing or ending that Federal involvement. MBA strongly believes that the mandate for establishment of a Commission should be to explore mechanisms for strengthening the VA home loan program and to examine in a positive vein the entitlement nature of that program.

Vendee Loan Rates

Section 3 of S 2049 would require the VA to offer below-market interest rates on vendee loans in certain cases on the grounds that it would enable the VA to market more easily VA-acquired properties in certain areas of the country. MBA understands that this proposal would assist the VA in disposing of its inventory. The Committee should be aware that other sellers would be required to lower their prices to meet the VA's competition. Such a reduction in prices could have serious detrimental effects on property values in many communities as other sellers would be compelled to take similar actions to sell properties. The net effect would be to accelerate the decline of property values in these areas.

Assumptions of Vendee Loans

The proposal to extend the new creditworthiness requirements for assumptions of VA-guaranteed loans to assumptions of vendee loans is equitable. MBA believes that it is logical to have consistency in this area and that to require assumptors of vendee loans to meet the underwriting criteria imposed on other VA mortgages could strengthen the program.

OTHER ISSUES

In response to your request to address other specific issues, we offer the following suggestions.

Cost of the Program

On the issue of ways to deal with the substantial increases in the cost of the VA home loan guaranty program over the past 10 years, MBA believes that some time is needed to assess the impact on the cost of the program of the changes that have been recently enacted. A determination needs to be made as to whether defaults, and therefore costs, will be reduced because of stricter underwriting requirements implemented by the VA in 1986 and because of the new mandatory creditworthiness requirements for assumptions enacted late in 1987 in PL 100-198. In addition, PL 100-198 provides for increased counseling to veterans in default in the hope of reversing the veteran's plight and avoiding a foreclosure sale. Finally, the new 0.5 percent fee for assumptions should generate new revenue.

However, MBA would like to reiterate that in addition to the cost to the government, there are substantial costs that are being borne by lenders. The underlying issue that needs to be addressed is whether Congress believes the program should continue as an entitlement. Appropriate ways to deal with the program costs follow from that policy decision. No one group in the private sector, i.e., lenders, should bear the costs of a government entitlement program.

VA Staffing

MBA believes that Department of Veterans' Benefits staffing over the past several years has been insufficient to handle the volume of defaults and foreclosures. For example, the number of seriously delinquent VA loans rose to 140,558 in the first quarter of FY 1988, as compared with 119,717 in the first quarter of FY 1986. Additionally, the number of VA loans foreclosed in the first quarter of FY 1988 rose to 11,568, as compared with 6,908 in the first quarter of 1986. Particularly in the areas where foreclosure volumes are high, such as Houston and Denver, many foreclosure sales have had to be postponed because the VA did not have adequate staff to analyze the property appraisals and issue foreclosure bidding instructions. These postponements increase the veteran's debt and cause unnecessary losses for the VA and the lender.

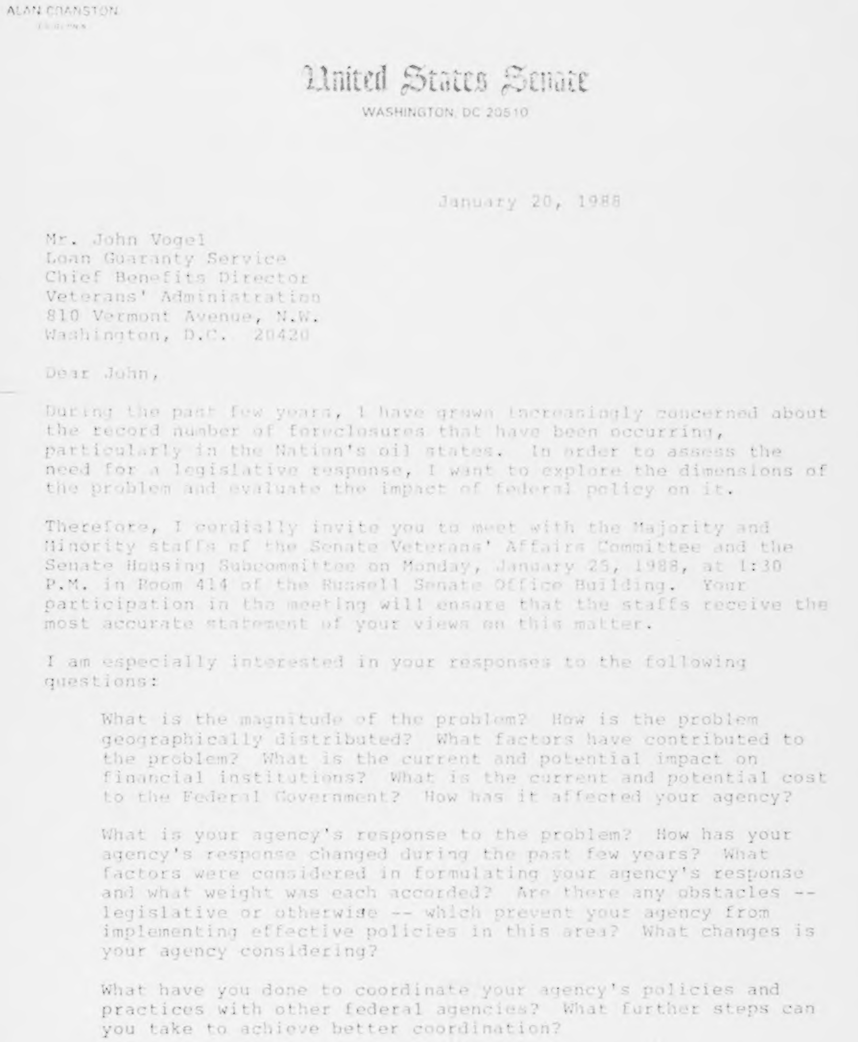
Because of staffing constraints, it is currently taking some VA offices an average of more than three months after title has been vested in the name of the Administrator to pay the lender's foreclosure claim. These delays in claim payments unnecessarily forestall the lender's reimbursement and cause additional losses to lenders because they must continue to advance interest to investors in Government National Mortgage Association securities. The VA should be staffed at a level that will enable the VA to settle lenders' claims within 30 days of the VA's acquiring title to the foreclosed property.

Automatic Data Processing

On the issue of the development and management of VA automated data processing systems, MBA believes that the VA should be given adequate resources to provide it with updated technology that would allow VA staff to perform their functions more efficiently. Automation has become the way of operating mortgage companies and its effects have been widespread. For example, MBA has worked with the FHA to use automated systems to eliminate the need for lenders to telephone FHA field offices to obtain case numbers and appraisal assignments. Through the interface of MBA's electronic communication system (ECHO) and FHA's Computerized Underwriting Management System (CHUMS), lenders are able to obtain this information automatically, thereby saving valuable staff time for both lenders and FHA. Additional applications are already underway to facilitate the collection of mortgage insurance premiums and issuance of mortgage insurance certificates. If the VA had adequate computer support, similar staff savings would be possible.

MBA appreciates the opportunity to testify before this Committee and would be happy to answer questions or provide additional information, as necessary, for inclusion in the hearing record.

Identical invitation letters sent to the addressees listed on the bottom of the second page of this letter.



ALAN CRANSTON

United States Senate
WASHINGTON, DC 20510

January 20, 1988

Mr. John Vogel
Loan Guaranty Service
Chief Benefits Director
Veterans' Administration
810 Vermont Avenue, N.W.
Washington, D.C. 20420

Dear John,

During the past few years, I have grown increasingly concerned about the record number of foreclosures that have been occurring, particularly in the Nation's oil states. In order to assess the need for a legislative response, I want to explore the dimensions of the problem and evaluate the impact of federal policy on it.

Therefore, I cordially invite you to meet with the Majority and Minority staffs of the Senate Veterans' Affairs Committee and the Senate Housing Subcommittee on Monday, January 25, 1988, at 1:30 P.M. in Room 414 of the Russell Senate Office Building. Your participation in the meeting will ensure that the staffs receive the most accurate statement of your views on this matter.

I am especially interested in your responses to the following questions:

> What is the magnitude of the problem? How is the problem geographically distributed? What factors have contributed to the problem? What is the current and potential impact on financial institutions? What is the current and potential cost to the Federal Government? How has it affected your agency?
>
> What is your agency's response to the problem? How has your agency's response changed during the past few years? What factors were considered in formulating your agency's response and what weight was each accorded? Are there any obstacles -- legislative or otherwise -- which prevent your agency from implementing effective policies in this area? What changes is your agency considering?
>
> What have you done to coordinate your agency's policies and practices with other federal agencies? What further steps can you take to achieve better coordination?

I would also like your comments on the attached Washington Post article which reports that the absence of coordination on the federal level has exacerbated the foreclosure problem.

I appreciate your willingness to attend this meeting. A tentative list of participants is attached.

With best wishes,

Sincerely,

Alan

Alan Cranston
Chairman
Committee on Veterans' Affairs
Chairman
Subcommittee on Housing
and Urban Affairs,
Committee on Banking, Housing and
Urban Affairs

cc: Honorable Frank H. Murkowski
Honorable Alfonse M. D'Amato

Mr. Tom Demery, Commissioner, Federal Housing Administrator, Department Housing and Urban Development
Mr. Keith Pedigo, Director of Loan Guaranty Services, Veterans' Administration
Mr. Pat O'Neal, Senior Vice President for Real Estate Sales, Federal National Mortgage Association
Ms. Annette Fribourg, Vice President for Congressional Relations, Federal National Mortgage Association
Ms. Judy Kennedy, Director, Government Affairs, Federal Home Loan Mortgage Corporation
Mr. Eric Piccinini, Manager, R.E.O. Division, Federal Home Loan Mortgage Corporation
Mr. Steven Seelig, Associate Director for Credit, Federal Deposit Insurance Corporation
Mr. Carl Hoyle, Director for Public Affairs, Federal Home Loan Bank Board

Washington Post, 12/27/87

Texas-Size Recession Makes U.S. a Landlord

Oil Troubles Caused Real Estate Boom to Go Bust

By Kathleen Day
Washington Post Staff Writer

DALLAS—Imagine trying to sell all the residential property in Arlington and Alexandria—roughly 100,000 houses, apartments and condominiums—all at once during a recession.

That's the size of the task facing real estate sellers in Houston, where nearly 200,000 homes are vacant, about twice the average for most cities of comparable size.

The sudden appearance of an extra 100,000 homes in three years results from record foreclosures in the wake of fallen energy prices and a Texas-size building spree that turned sour.

The stockpile of repossessed property here has grown so big it has created a chain reaction, fueling the recession that bred most of the vacancies in the first place.

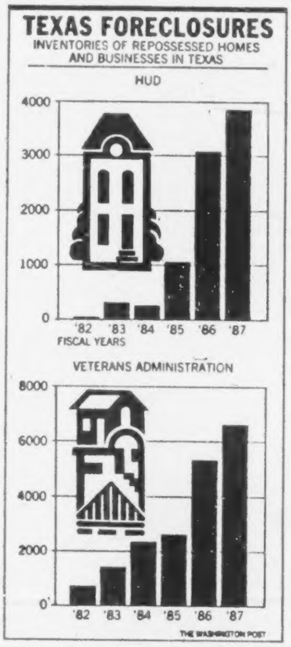
The cycle is being played out in many other areas of the country, from Denver to Peoria to Miami. But nowhere is the problem more acute than in Dallas, Houston, Austin, San Antonio and other Texas cities. They are burdened with the biggest real estate glut since the Depression of 1929. Texas homes that sold for $48 a square foot three years ago now go for $25 a square foot.

"It's very serious, very severe and unlike anything I've seen in my 25 years in the housing finance industry," said Michael A. Smilow, a vice president of the Federal National Mortgage Association—Fannie Mae—a government-chartered, privately run company that buys home loans and sells securities.

No one disputes the severity of the problem. No one disputes that an economic upswing is the long-term remedy, even though predictions of recovery rise and fall with oil prices.

What is disputed—hotly disputed—is how the U.S. government should sell the growing surplus of property it has inherited from debtors and from failed banks and savings and loans. The list includes hundreds of thousands of repossessed homes, condominiums, shopping centers and business complexes—no one knows the exact number because no one in government has added them up.

The harder the government pushes to dispose of this inventory, the lower the prices will go and the less the original lenders will recover. Investors from around the country who poured money into the state during its go-go years in the early and mid-1980s are watching anxiously, knowing the size of their losses depends on the outcome of the debate and its effect on the Texas economy.



"There's a dumping problem—there's all that property. You can't sell it all at the same time. If you do, the price gets close to zero," said Jay Janis, a California S&L executive and former chairman of the Federal Home Loan Bank Board, the federal agency that regulates S&Ls.

Said Sandra Flanigan, vice president and bank analyst at PaineWebber Inc. in Houston, "You cannot say it's just a Texas problem. Texas is not an isolated market. We're talking global markets. It's something that needs to be more directly addressed by Washington than it has been."

She added, "We don't think the real estate markets have bottomed. The question is, what does one do? The market's not strong enough to withstand a dumping."

Record foreclosures have turned half a dozen federal agencies into landlords, each with a separate, sometimes conflicting, policy for selling off or renting tens of thousands of properties. A joke in Houston has it that the Federal Home Loan Bank Board ought to vote on the city council because the agency has become the city's biggest landlord.

Scores of S&Ls, banks and mortgage lenders across the country also have become landlords. To them, the government's policy—or lack of policy—is no joke. They claim the sales strategy of the government is an uncoordinated free-for-all that is destroying real estate prices and undermining the efforts of private companies to dig themselves out.

William Isaac, a banking lawyer and former chairman of the Federal Deposit Insurance Corp., the federal agency that insures deposits at banks, warns that "banks around the country are going to end up paying for those problems if they're not handled properly."

Stuart A. McFarland, chief executive of SKL Holdings Corp. in Falls Church, couldn't agree more. SKL is the company that emerged when a tax shelter company called Equity Programs Investment Corp. was reorganized in 1985 under Chapter 11 of the U.S. bankruptcy code. It owns 17,000 repossessed homes, about 9,000 in Texas, and claims to be the largest manager of foreclosed properties in the United States.

"There will be a time as this death spiral continues that local municipalities will have trouble providing basic services as their tax base erodes," he said, explaining that as home values fall, so does the tax cities collect on them. That perpetuates the creation of what he calls "neutron bomb neighborhoods," or modern-day ghost towns.

"The whole problem should be privatized because the government has no idea how to manage property, how to stabilize property or how to sell to tenants so sales are paced out over time," he said.

Several Washington area institutions are creditors of SKL and stand to be big winners or losers, depending on how Texas home prices move. Among them are Dominion Federal Savings and Loan in McLean, Washington Federal Savings & Loan in D.C. and Baltimore Federal Financial.

So much new foreclosed property is coming to these institutions that they hope to keep SKL alive as a jointly owned subsidiary after the bankruptcy plan is complete and earn a profit managing troubled real estate for themselves and others.

But that depends on the success of SKL, which in turn hangs on how far government policy pushes down prices.

"Our government system by its nature works against itself in trying to solve problems of this size because each agency in effect is its own little fiefdom," said Joseph E. Robert, who owns one of the largest companies in the country that manages troubled real estate.

Executives at some of the half dozen other major companies that specialize in managing foreclosed property insist they could do a better job than the government. But they say that even if the government turned over to them all the business they could manage, the federal agencies still would be left with more property than they can handle under current policy.

"The size of the problem dwarfs the amount of expertise available in this country to handle it," Robert said.

The sentiment reflects conflicting goals of the private sector and the government. Companies want to hold properties and dispose of them slowly to keep prices as high as possible. The government, in theory, also wants to sell at top dollar, but it also wants as much cash as it can get today and isn't keen to hold property on the chance it might fetch a higher price tomorrow.

With each of a half dozen agencies operating on its own, the take-the-cash philosophy ends up looking like a fire sale to private investors. Government officials insist they must operate in the interest of the government and by the rules Congress sets for them, including an assumption that the government has no business holding property on the gamble that prices might rise.

But the uncoordinated actions of the half-dozen federal agencies involved adds to the turmoil, investors say. The Federal Housing Administration, an agency that guarantees loans and takes over homes when buyers default, held 35 auctions for homes in Texas this year, FHA officials in Texas say.

That was news to FHA officials in Washington, who last week said they did not know how many auctions their field officers were holding. "As far as auctions go, they can do what they want; they can hold them when they want, it's their own thing," said Bill Glavin, an FHA spokesman in D.C. said.

Fannie Mae held 20 auctions of its own, while the bank board held six.

None of the auctions was coordinated.

Policies have become so confusing that agencies sometimes act one way one day, another the next.

For example, the Office of Mangement and Budget—which sets budget policy for the White House—in recent years ordered the Veterans Administration to sell its repossessed homes as quickly as possible to help reduce the federal deficit. But OMB in recent months came under pressure from House Speaker Jim Wright (D-Tex.) and Rep. Jack Brooks (D-Tex.), and ordered the VA to cut auctions because of complaints the agency was depressing real estate prices and hurting private companies in the lawmakers' home state.

"So we held no auctions in Texas from October of 1986 to June 1987," said Tom Maher, assistant director of property management at the VA. In the meantime, the FHA, Fannie Mae and other government-affiliated organizations were holding auctions as often as once a week, he said.

"We looked like dummies," Maher said. "We're willing to be part of a coordinated strategy [among the agencies]. But we don't want to be standing in the corner while everyone else is out playing."

The policy of the Federal Deposit Insurance Corp. is to sell its properties, mostly commercial real estate, as quickly as possible. "You have to let the marketplace take its course, even if it looks gruesome," said Steven Seelig, assistant director for FDIC liquidations. "If you hold stuff off the market, the market still knows it's there" and will adjust prices accordingly.

"You can't fool people that way," Seelig said.

Yet another agency, the bank board, is working to come up with a policy by Jan. 1 for selling property in Texas or other depressed regions. In the meantime, sometimes the agency sells property right away, sometimes it holds it, and no one is ever sure which way it will go on any particular parcel.

Real estate experts say Washington has taken much too long to focus the debate away from the cause and onto the pressing problem of what the government will do about the resulting glut of housing that by some estimates will take 10 years to unload. -4-

The government's cache of foreclosed and repossessed real estate has doubled nationwide since 1981, according to available figures, but in Texas during the same period it increased at least tenfold. By some estimates, the U.S. government and a dozen or so private companies now own about 25 percent of the housing stock in some Texas markets.

The government's failure to see the problem and address it early attests to the inability of individual agencies to comprehend the big picture, critics say.

"1986 was the year of great awakening in Washington," said Barton Smith, head of the economics department at the University of Houston. But the crisis began at least four years earlier.

OMB officials, who would not comment publicly, conceded there has been no effort to get the various U.S. agencies or federally chartered companies to coordinate efforts.

Officials at the federal agencies said they would oppose any new agency to handle the government's mounting real estate, but agreed that coordinating policy—and auctions and sales practices—might work.

"There's no easy answer," said Jay Janus. "But it's very important to have a coordinated policy so that one agency isn't selling at one price and another is selling at another price. That creates market instability."

One possible remedy discussed by the private sector would be to sell the government's repossessed real estate to the private sector as quickly as possible while allowing the government to keep rights to profits should the private company sell the property for a larger-than-expected sum.

Whatever is done or not done, one trend is certain, officials in government and business say. As the number of homes for sale rises, the price of homes will fall. The farther prices fall, the more worthless loans backed by the homes become. As loans lose value, so do the banks and other lenders holding them. The weaker the lenders become, the greater the likelihood that more real estate will fall to federal agencies.

It's a classic vicious cycle. "You can compare it to a nuclear explosion," said Joe Robert. "There aren't enough doctors to handle the medical casualties."

Identical letters sent to the addressees listed on the next page.

ALAN CRANSTON CALIFORNIA CHAIRMAN

SPARK M MATSUNAGA HAWAII
DENNIS DECONCINI ARIZONA
GEORGE J MITCHELL MAINE
JOHN D ROCKEFELLER IV WEST VIRGINIA
BOB GRAHAM FLORIDA

FRANK H MURKOWSKI ALASKA
ALAN K SIMPSON WYOMING
STROM THURMOND SOUTH CAROLINA
ROBERT T STAFFORD VERMONT
ARLEN SPECTER PENNSYLVANIA

JONATHAN R STEINBERG CHIEF COUNSEL/STAFF DIRECTOR
ANTHONY J PRINCIPI MINORITY CHIEF COUNSEL/STAFF DIRECTOR

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510-6375

March 11, 1988

Mr. R. John Vogel
Chief Benefits Director
Veterans' Administration
810 Vermont Avenue, N. W.
Washington, D. C. 20420

Dear John,

I am writing to thank you for your participation in the January 25, 1988, meeting between representatives of certain Federal agencies and Federally-sponsored entities and the Majority and Minority staffs of the Senate Veterans' Affairs Committee and the Housing and Urban Affairs Subcommittee of the Senate Banking, Housing, and Urban Affairs Committee. I understand that it was an informative meeting.

As was discussed at that meeting, enclosed are follow-up questions requesting statistical data and other information relating to your agency's foreclosed property management and disposition program. I also have enclosed a copy of an April 28, 1987, New York Times article on the Houston Housing Authority's purchase of foreclosed properties for use as low-income rentals, which is referred to in one of the questions. I would appreciate receiving your responses to these questions by April 4.

Thank you for your cooperation and assistance in this matter.

With warm regards,

Cordially,

Alan

Alan Cranston
Chairman

Committee on Veterans' Affairs
Subcommittee on Housing
and Urban Affairs
Committee on Banking,
Housing and Urban
Affairs

Enclosures

cc: Honorable Frank H. Murkowski
Honorable Alfonse M. D'Amato

Mr. Tom Demery, Commissioner, Federal Housing Administrator, Department Housing and Urban Development
Mr. John Vogel, Chief Benefits Director, Veterans' Administration
Mr. Keith Pedigo, Director of Loan Guaranty Services, Veterans' Administration
Mr. Pat O'Neal, Senior Vice President for Real Estate Sales, Federal National Mortgage Association
Ms. Annette Fribourg, Vice President for Congressional Relations, Federal National Mortgage Association
Ms. Judy Kennedy, Director, Government Affairs, Federal Home Loan Mortgage Corporation
Mr. Eric Piccinini, Manager, R.E.O. Division, Federal Home Loan Mortgage Corporation
Mr. Steven Seelig, Associate Director for Credit, Federal Deposit Insurance Corporation
Mr. Carl Hoyle, Director for Public Affairs, Federal Home Loan Bank Board

Follow-up Questions to January 25 Meeting
Oil State Foreclosures

General

1. The number of foreclosures, and the inventories of foreclosed properties, have increased substantially in Texas in the past five years. What aspects of this problem are unique to Texas? Under what conditions could this problem be replicated in other areas of the country?

2. There are currently foreclosure problems in Alaska and Colorado. How are they similar to the Texas problem? how do they differ?

3. What is your response to the following criticism of the way government entities dispose of foreclosed properties:

> The principle objective of government entities in the area of property disposition is to recoup their losses as rapidly as possible. This objective leads to rapid selling of properties at below market prices. Selling at such prices leads to a further cycle of foreclosure.

4. A separate criticism of federal property disposition is that government entities have had no coordinated strategy. What efforts has

your agency made to coordinate property disposition activities with those of other federal agencies and federal government-sponsored entities? What types of additional coordination would you recommend? What would be the benefits? What, if any, obstacles -- legislative or otherwise -- prevent or hinder such coordination?

5. Under what circumstances might the potential loss on a foreclosed property be so great that it would be more advantageous for the federal government to hold on to that piece of property?

6. How might a public, for-profit entity be helpful in the management and disposition of government-acquired foreclosed properties? What would be the advantages and disadvantages of creating such an entity?

7. The attached New York Times article of April 28, 1987, reports that the Houston Housing Authority has purchased 307 homes repossessed by the FHA to use as low-income apartments. Should this activity be expanded? How could your agency better target the disposition of foreclosed properties to benefit low- and moderate-income homeowners or renters?

8. To what extent could your agency's response to the Texas experience make it more difficult for low- and moderate-income families to buy homes in the future?

9. (a) How soon after an agency loan goes into default does the agency receive notice of the default?

(b) What actions are taken by the agency upon receipt of such notice?

(c) What does the agency do to provide loan servicing and financial counseling to borrowers in default on such loans?

10. What special steps are taken in areas such as Houston where your agency has acquired sizeable inventories of foreclosed properties, with respect to --

(a) loan servicing;

(b) property acquisition; and

(c) property disposition?

11. What has your agency done to educate real estate agents regarding, and to increase their participation in your property disposition program?

12. What is your agency's policy regarding:

(a) Interest rate-levels on agency financing offered on foreclosed properties.

(b) Downpayment requirements on sales of foreclosed properties.

(c) Use of auctions to sell agency-acquired foreclosed properties.

(d) Rental of agency-acquired foreclosed properties.

(e) Retaining a percentage of the equity in such properties when they are sold by means of agency financing.

13. What steps is your agency taking to prevent or minimize the impact which a "Houston-like" -- i.e. economically-depressed -- market could have on it?

14. When and how often will an agency-acquired foreclosed property be appraised?

Specific -- Please answer the following questions with data for each of the past five years and the current period, and differentiate between the types of foreclosed properties (i.e. percentage of single-family, multi-family, condominium, etc.) that your agency has held.

15. What has been the price range of these properties? How many foreclosed properties has your agency held in each state (be specific)? What percentage of the total number of foreclosed properties -- private- and government-owned -- in each state has your agency's portfolio represented?

16. What has been the average loss per property?

17. What has been the average holding time from foreclosure to disposition? What are the various types of costs associated with this holding time?

18. What percentage of the average unpaid principle balance are you able to recover in Texas? In the country as a whole?

19. Describe the various processes your agency has used to dispose of property. What is currently the most favored method? Why?

20. To what extent are properties repaired prior to being sold? What is the average amount per property spent on such repairs?

21. What sales incentives are offered? What finance mechanisms are used? What financing packages are offered?

22. What do the buyer profiles look like? What protections are there against speculative purchasing?

Houston Is Buying Homes for Low-Income Tenants

Special to The New York Times

HOUSTON, April 27 — The economic troubles in Houston that have cost many people their homes have made Annie Robertson a pioneer in an ambitious public housing experiment.

The Houston Housing Authority has begun to buy up foreclosed homes for low-income rental, a move that not only eases demand for apartments in public housing projects but also provides occupants for boarded-up homes in some of Houston's nearly vacant suburban developments.

Earlier this month Ms. Robertson and her four children moved into one of those houses, a spacious two-story brick building in the Quail Glen subdivision, for which she will pay $265 a month.

207 Repossessed Homes

The approach, not without controversy, reflects a nationwide trend toward scattering public housing residents throughout a city instead of concentrating them in big apartment projects.

The effort has been made easier here by the depressed real estate market. With foreclosure rates at record levels, the housing authority is buying 207 homes repossessed by the Federal Housing Administration. The three- and four-bedroom homes cost the authority an average of slightly more than $30,000.

"The market situation here makes these properties affordable where elsewhere they wouldn't be," said William Robertson of the Federal Department of Housing and Urban Development office here, who is not related to Annie Robertson. "In places like Boston or San Francisco, the prices would be too high even if the sites were available."

The money was originally appropriated for the housing authority to build two large federally subsidized projects. But plans for the projects were scrapped because of neighborhood opposition.

The homes are being rented at rates set by the Government to families who have been living in large projects.

Not just any family can be assigned to the foreclosed homes. "They must have demonstrated some ambition," Mr. Robertson said, "some pride in their housing, part-time jobs, something that says they're trying to better themselves."

Tenants must also have income of $13,000 to $25,000 and are required to take classes in home maintenance.

Ms. Robertson earns $15,000 a year as a clerk for Continental Airlines. She and her children have moved into a home with a fenced in backyard and a patio. Many of the nearby homes in the subdivision are vacant now, their windows facing fields scattered with idle oil drilling rigs.

The moves of the Robertsons and others have evoked mixed feelings from some families struggling to remain in Houston's middle class. "I've gotten a lot of calls from people who objected to someone living in a better home and paying less," said Mr. Robertson at the H.U.D. office. "Some wanted to sell their house to the housing authority and rent it back."

Deterioration in Suburbs

But most subdivision residents say they are relieved that even a few more homes near them will be occupied. Houston's suburban neighborhoods have vacancy rates of 10 percent to nearly 40 percent, according to Barton Smith, an economist with the Center for Public Policy at the University of Houston who has just completed a study of about 500 subdivisions. Contrary to trends experienced by many cities since the 1960's, the outlying areas of Houston, rather than the central city neighborhoods, are deteriorating.

Vandalism is common in Quail Glen. Recently there was a fire at a vacant house behind David Norris's home.

"I don't want this to be a transient neighborhood," said Mr. Norris, who has lived across the street from Ms. Robertson's new house for six years. "But each month you see new vacancies. The people next door just moved out, and their house wasn't even for sale. I'd sell mine if someone would give me what it's worth, but that's not going to happen."

APR 1 1 1988

Honorable Alan Cranston 263
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510-6375

Dear Mr. Chairman:

This is in response to your letter of March 11, 1988, in which you requested statistical data and other information concerning VA's property management and disposition program. Answers to the questions which you submitted are provided on the attached pages.

We appreciate the opportunity to have responded to your concerns.

Sincerely yours,

R.J. VOGEL
Chief Benefits Director

cc: 203C4

LCWALKER:rf 3/29/88 263 26 203 (0169F)

QUESTION 1: The number of foreclosures, and the inventories of foreclosed properties, have increased substantially in Texas in the past five years. What aspects of this problem are unique to Texas? Under what conditions could this problem be replicated in other areas of the country?

RESPONSE 1: The degree to which the local economy was dependent on oil production is the primary aspect of this problem which is unique to Texas. The problem has been replicated in lesser degrees in other areas of the country depending on the extent to which those local economies were dependent on extraction or processing of energy resources such as oil or coal. This problem could be replicated in other areas of the country which rely on a single industry for economic support.

QUESTION 2: There are currently foreclosure problems in Alaska and Colorado. How are they similar to the Texas problem? How do they differ?

RESPONSE 2: The foreclosure problems in Alaska and Colorado are similar to the Texas problem due to their origins in a period of relative prosperity during the late 1970's and early 1980's, which was followed by a decrease in foreign oil prices, decrease in demand for domestic oil, lay-offs in energy-related fields, migration of the work force in search of employment, increase in residential vacancies and homes listed for sale, surplus of properties fueling a buyers market, decrease in property prices, values and owner equity, increase in foreclosures of residential and other types of loans, and subsequent increase in inventories of real estate owned (REO) by mortgage holders, insurers and guarantors. The foreclosure problems in Alaska and Colorado differ from the Texas problem primarily in degree rather than substantial variations in the reasons for default, i.e., death, illness, divorce, curtailed income, increased debts, unsatisfactory property, military or other job transfers.

QUESTION 3: What is your response to the following criticism of the way government entities dispose of foreclosed properties:

"The principle objective of government entities in the area of property disposition is to recoup their losses as rapidly as possible. This objective leads to rapid selling of properties at below market prices. Selling at such prices leads to a further cycle of foreclosure."

RESPONSE 3: The objective of VA's property management and sales activities is to sell acquired properties within a reasonable period and at the best available prices and terms. Realizing that the primary source of income for the Loan Guaranty Revolving Fund is the sale of acquired properties, we recognize the need to sell properties as quickly as possible in order to minimize the need for Congressional appropriations. However, in pricing properties, we try to establish prices at levels which will result in the expeditious sale of properties and will, at the same time, allow for the maximum recapture of the money paid by the Government to acquire such properties after foreclosure. Our policy is to price properties in line with what similar properties are selling for in the same area. Once a property is listed for sale, our field stations continuously examine market factors to make appropriate revisions in the prices as conditions dictate. Our prices are based on opinions of value from fee appraisers and management brokers, as well as VA's opinion of value based on recent comparable sales data.

QUESTION 4: A separate criticism of federal property disposition is that government entities have had no coordinated strategy. What efforts has your agency made to coordinate property disposition activities with those of other federal agencies and federal government-sponsored entities? What types of additional coordination would you recommend? What would be the benefits? What, if any, obstacles--legislative or otherwise--prevent or hinder such coordination?

RESPONSE 4: Despite the absence of a formally coordinated strategy for property disposition among federal agencies and federal-sponsored entities, there is a striking unanimity in their separately developed disposition goals. In brief, all seem to have the goal of selling properties as quickly as practicable at the best available prices.

Although we have not formally coordinated property disposition activities with other federal-related REO (real estate owned) holders, we regularly review the sales techniques employed by them in various local markets to see which techniques might benefit our own disposition efforts.

We do not recommend any additional coordination at this time.

The principal obstacle to greater coordination is the separate fiscal responsibility of the various REO holders. VA has its Revolving Fund, HUD has its Insurance Fund, and others have shareholders, etc. To the extent that "greater coordination" means -- as it usually does-- a slowing of the rate of REO disposition, how will the income shortfall be handled? For example, if VA sales were to be deliberately slowed, the appropriations needed for the operations of the Loan Guaranty program would be greater. To date, we have not believed that we have the discretion to consciously slow sales and thereby to increase the burden of appropriations.

QUESTION 5: Under what circumstances might the potential loss on a foreclosed property be so great that it would be more advantageous for the federal government to hold on to that piece of property?

RESPONSE 5: Rarely, if ever. The financial demands on the Loan Guaranty Revolving Fund do not permit the holding of properties with the mere hope that local real-estate markets will rebound. However, if we reasonably anticipated a significant, near-term local market turn around, holding properties off the market might be beneficial and practicable.

QUESTION 6: How might a public, for-profit entity be helpful in the management and disposition of government-acquired foreclosed properties? What would be the advantages and disadvantages of creating such an entity?

RESPONSE 6: The creation of such an entity, perhaps similar to the Federal Home Loan Bank Board's FADA (Federal Asset Disposition Association), would coordinate and unify the Government's property disposition activities.

The perceived advantages of such an entity are thought to be both philosophical and practical. It is often believed that the single entity could bring greater stability to certain real estate markets by controlling the rate of federal asset disposition. It is also believed that federal disposition efforts could be handled more efficiently by an entity which would not be subject to the personnel, pay, and contracting restrictions to which the federal agencies, at least, are subject.

The perceived disadvantage of such an entity is that its creation alone would not answer the fiscal question inherent in controlling, or slowing, the rate of federal asset disposition: where will the monies come from to make up for the shortfall in revenues to the Government or to private shareholders of federal-sponsored entities?

QUESTION 7: The attached New York Times article of April 28, 1987, reports that the Houston Housing Authority has purchased 307 homes repossessed by the FHA to use as low-income apartments. Should this activity be expanded? How could your agency better target the disposition of foreclosed properties to benefit low- and moderate-income homeowners or renters?

RESPONSE 7: VA's property disposition program is primarily a salvage program. Its purpose is to recover as much of the Government's investment in these properties as possible within a reasonable period of time. The program involves the sale of the properties for fair market value. Public housing agencies have purchased, and are welcome to purchase, as many VA-owned properties as they can afford. To this end, our Houston Regional Office has had negotiations with local housing authorities, principally in Houston and San Antonio, regarding the purchase of VA properties. Properties have been sold to housing authorities in both of these cities. The Houston Regional Office will continue to work with all local housing authorities in an effort to sell additional properties at fair market value prices.

With the average sales price of VA-owned properties at $43,500, we believe that a substantial portion of our property inventory can presently be purchased by low- and moderate-income persons. In addition, competitive downpayment levels (ordinarily 5 percent or less) and 30-year fixed-rate financing are usually attractive features for such prospective purchasers. We have not implemented any large-scale rental programs because of the cash-flow problems that this could create for the Loan Guaranty Revolving Fund.

QUESTION 8: To what extent could your agency's response to the Texas experience make it more difficult for low- and moderate-income families to buy homes in the future?

RESPONSE 8: Our response to the Texas experience has been and continues to be to sell properties at market value based on the current economic condition. To the extent that low- and moderate-income families were able to purchase properties before the economic downturn, they should likewise be able to purchase properties in the future with little or no difficulties and without special concessions by VA or other federal housing agencies. Since the market values of homes have declined considerably in many parts of Texas, low- and moderate-income families should find it easier to qualify to purchase many homes they previously could not have afforded.

QUESTION 9a: How soon after an agency loan goes into default does the agency receive notice of the default?

RESPONSE 9a: Loan holders may report delinquent loans to VA as early in the default as appears reasonable. Holders are encouraged to report clearly insoluble defaults after two installments are due and unpaid. The outside limit for reporting a default is 45 days after three installments are due and unpaid. The report must contain the reason for default and summarize the holder's servicing efforts.

QUESTION 9b: What actions are taken by the agency upon receipt of such notice?

RESPONSE 9b: Upon receiving a notice of default, VA enters the data into our computer tracking system. We then provide the borrower with information on alternatives to and consequences of foreclosure, as well as the availability of financial counseling from VA.

QUESTION 9c: What does the agency do to provide loan servicing and financial counseling to borrowers in default on such loans?

RESPONSE 9c: VA begins supplemental servicing in appropriate cases with outreach efforts to the borrower by letter, mailgram, telephone and personal visits to the property. Once contact is established, VA offers appropriate advice and/or financial counseling to the borrower, and may intercede with the lender on the borrower's behalf to arrange forbearance or a repayment schedule.

VA advice to borrowers may include referrals to agencies offering relief benefits for which the borrower may be eligible (e.g., welfare, social services, marriage counseling, unemployment or workers compensation, etc.). VA may also refer borrowers to private financial counseling agencies, some of which are HUD-approved.

If a borrower has no realistic prospects for maintaining the mortgage payments, VA will encourage a private sale of the home to avoid foreclosure. When the fair market value of the home is not sufficient to satisfy the loan indebtedness, VA may pay a compromise claim for the difference and thereby avoid a foreclosure and a property acquisition.

Thirty days prior to initiating foreclosure, the lender must submit its Notice of Intention to Foreclose. This notice provides VA with additional time to attempt personal supplemental servicing and to explore possible ways to assist the borrower.

As an alternative to foreclosure, VA considers approval of a deed in lieu of foreclosure. If the acceptance of a deed is in both the borrower's and VA's best interests, VA will approve it.

If the lender has indicated that further forbearance will not be granted, VA considers refunding the loan (taking an assignment from the lender), based on several factors, including the borrower's present or potential ability to reinstate the loan.

If foreclosure is completed, the holder will often convey the property to VA. VA will consider reselling to a borrower who still resides in the property if his or her financial circumstances have improved sufficiently to indicate that regular monthly payments may be resumed.

QUESTION 10a: What special steps are taken in such areas as Houston where your agency has acquired sizeable inventories of foreclosed properties, with respect to loan servicing?

RESPONSE 10a: Sizeable property inventories are usually the result of depressed economic conditions in certain locations, such as the Houston area. Our field stations attempt to increase their contacts with delinquent veteran-borrowers in order to ensure they are aware of the alternatives to, and consequences of, foreclosure. During February, 1988 our Houston office reported 1,419 personal supplemental servicing contacts, which exceeded the number of new defaults reported. In addition, 17 GI loans were refunded in order to avoid foreclosure.

Plans are underway to implement a pilot loan servicing project at our Houston office. Ten additional Loan Service Representatives will be assigned to that office. Their sole function will be supplemental servicing of GI loans. This servicing will be performed during early morning, evening and weekend hours, in addition to normal working hours, in order to reach veterans when they are most likely to be at home. Provisions are also being made for adequate technical support in the form of telephone lines, personal computers and TARGET terminals to access the Loan Guaranty data files.

QUESTION 10b: ...property acquisition?...

RESPONSE 10b: Property acquisitions by VA are governed by the provisions of 38 U.S.C. 1816, which require VA to determine net property values. In areas such as Houston, the declining market values also create reduced net values and fewer acquisitions by VA. During the quarter ending December 31, 1987 VA declined to acquire propertes in 34.8% of the foreclosures in Houston, as compared to only 20.7% of the foreclosures nationwide.

QUESTION 10c: property disposition?

RESPONSE 10c: The following special steps have been taken in areas such as Houston where VA has acquired sizeable inventories of acquired properties:

Increased Staffing for Regions with Heavy Workloads. The number of fulltime employees available for property management activities has been increased in offices experiencing the greatest growth in acquisitions.

Use of Contract Labor and Staff Overtime. Selective utilization of these methods within our authority has provided additional resources for processing property listings, purchase offers and sales closings.

Local Area Network for Personal Computers. Installation of a local area network of personal computers provides multi-user access to an interactive local data base to track the status of properties and offers to purchase. Further programming and equipment refinements are expected to improve linkage of this record keeping system with production of sales listings, closings and routine correspondence.

Code Sheet Elimination. After testing this program in 3 regions, we have scheduled software installation in Houston which will update the method of data entry into the agency data base from manually prepared code sheets to multi-user keyboard entry. Code sheet elimination is an important initial step in reducing paperwork and in joining recordkeeping systems with an on-line production system to reduce duplications and errors inherent in present systems.

Electronic Bulletin Boards. Approximately 85 percent of our regional offices with Loan Guaranty operations have implemented computer based bulletin boards. Callers with personal computers and modems can obtain status of property listings and offers to purchase during evening and weekend hours when VA regional offices are closed and when real estate office personnel are usually busy developing sales.

Advisory Councils and Task Forces. In liaison with local organized groups of real estate brokers, we have examined our sales practices in certain markets and implemented changes to improve interaction among buyers, brokers, lenders, and VA.

Increased Compensation to Brokers. We have authorized increases in compensation to sales and management brokers, in selected areas, for their services.

Public Bid Openings. To provide real estate brokers and buyers with faster response regarding offer receipt, ranking, and processing for acceptance, we have implemented public bid openings, similar to those conducted by HUD, in the Houston region. Although these events require some additional time commitments from regional office staff, the favorable response which public bid openings receive from brokers and buyers indicates that this practice can be useful in certain concentrated markets. When these public openings are attended by significant numbers of brokers, we have been able to eliminate individual correspondence regarding receipt and selection of offers to purchase.

Auctions. We have scheduled an increased number of auctions in the coming months in an effort to accelerate acquired property sales.

Liquidation Sales. These events offer a large group of properties for sale individually for a limited time at prices which are widely advertised as having been reduced by substantial percentages below previous list prices. This method of marketing has been used by the Houston Regional Office on 3 occasions and has received favorable response from brokers and buyers when combined with public bid opening procedures. Terms of sale can be more flexible than auctions have provided. However, much more staff time is needed for liquidation sales than is required by auctions.

Exclusive Listings. In California and Texas, we are testing the use of exclusive listing agreements with management brokers to determine if these arrangements will result in reduced holding costs and quicker sales.

QUESTION 11: What has your agency done to educate real estate agents regarding, and to increase their participation in, your property disposition program?

RESPONSE 11: --As a result of a voluntary effort by the National Association of Realtors (NAR) to assist VA in reducing our inventory, a marketing plan developed by NAR is being tested in several selected areas where VA has substantial property inventories. The plan is designed to help VA sell more properties and to sell properties at a faster rate by providing wider exposure of VA properties to the real estate community. Most recently, we met with NAR representatives and seven Denver-area Boards of Realtors in February to plan ways to improve broker participation and marketing of VA-owned properties in Colorado.

--VA field stations use paid advertising to promote the property sales programs. Many of these advertisements appear in periodicals which are primarily directed towards real estate agents/brokers.

--In the past, VA did not pay real estate sales commissions to real estate professionals when the sale was to themselves or to one of their close family members. Sales commissions are now paid on these sales except when a fee appraiser, property manager or VA employee has been involved in the pricing of the property.

--Regional offices are required to have computer based electronic bulletin boards available to provide real estate agents with information on listed properties, and information on the status of offers submitted and closings scheduled. Besides learning of property/offer status, brokers can leave messages for property management employees. This feature allows the VA to maximize limited computer resources and allows brokers to "communicate" with our regional offices at times when most brokers are working (after hours and on the weekends) and our offices are closed. We expect 85% of our regional offices to have this system in operation as of April 1, 1988.

--The Houston Regional Office is assisted in its marketing and sales activities by the Houston Advisory Council, a private-sector council of real estate professionals This council has been instrumental in identifying problem areas which brokers find most objectional and in offering the Director of the Houston office recommendations on ways to improve the sales program.

--Regional offices are authorized to accept reasonable offers below stated listing prices. We believe this feature demonstrates VA's flexibility on pricing and encourages purchasers to submit offers in an environment which closely resembles the conventional process of buying a house, i.e., purchasers seldom offer to purchase properties at the seller's list price.

--All stations were encouraged to institute a successful Chicago Regional Office program for recruiting new brokers. The Chicago office obtained the mailing list from the State's real estate licensing board and mailed invitations to these brokers to become VA participating brokers.

--Sales commission bonuses are paid on properties listed six months or more and on properties priced $20,000 or less. Bonuses are also paid on cash and term sales when they close quickly.

--In order to ensure that the cash discount on properties is reflective of local market conditions, regional offices are authorized to accept cash offers which are within 20 percent of the term list price.

--Due to the distance between some of our regional offices and our properties, one station is testing the benefits of having sales brokers telephone offer data to the regional office in order to establish date and time of submission (provided the telephonic offer is followed-up in writing).

In addition to telephone offers, another regional office now has the facilities which allows brokers to expedite the offer submission process by using facsimile machines.

--VA's offer and contract form has been greatly simplified and is now similar to real estate contract forms used in the private sector.

--Regional Offices are now required to schedule at least two sales broker meetings annually in the areas in which they have concentrations of properties.

QUESTION 12a: What is your agency's policy regarding interest rate-levels on agency financing offered on foreclosed properties?

RESPONSE 12a: Interest rates for agency-provided financing usually change in tandem with the maximum allowable rate of interest for home loans which VA guarantees. VA does not offer concessionary interest rates to promote property sales.

QUESTION 12b: ...downpayment requirements on sales of foreclosed properties?...

RESPONSE 12b: Each regional office Director has authority to determine the minimum downpayments required in connection with VA-provided financing. This determination is based on local market conditions and can be adjusted to accommodate changes in market activity or unusual conditions affecting specific localities or properties, such as remote locations, increased competition from other homes listed for sale, etc.

QUESTION 12c: use of auctions to sell agency-acquired foreclosed properties?

RESPONSE 12c: Auctions, as utilized by VA, have provided a suitable marketing alternative for large groups of hard-to-sell properties. We have scheduled an increased number of auctions in an effort to sell more of our properties, including some which have not previously been listed for sale through brokers and some which are not yet vacant.

QUESTION 12d: ...rental of agency-acquired foreclosed properties?

RESPONSE 12d: We have not implemented large-scale rental programs which delay the sale of properties until market conditions might become more favorable and result in a higher selling price. Our sales goals are intended to promote the transfer of ownership of these homes as quickly as possible to provide a source of replenishment for the Loan Guaranty Revolving Fund.

QUESTION 12e: ...retaining a percentage of the equity in such properties when they are sold by means of agency financing?

RESPONSE 12e: We understand that equity participation plans provide concessionary financing terms for borrowers in exchange for a portion of the profit which the borrower realizes upon sale of the property. Our agency financing is most utilized by purchasers in markets which have not realized substantial equity growth and which may actually be experiencing declining values. We have tried to keep our financing, including interest rates, competitive with other REO (real estate owned) sellers. It has been our experience that other REO sellers do not widely engage in equity participation plans for individual sales of single-family homes especially in depressed markets. Consequently, we have not considered that equity participation would be beneficial in the areas in which we have the largest inventories of properties.

QUESTION 13: What steps is your agency taking to prevent or minimize the impact which a "Houston-like" -- i.e., economically depressed -- market could have on it?

RESPONSE 13: We have declined to accept conveyances of properties with substantially reduced market values in economically depressed markets. Prior to a foreclosure sale, VA obtains a property appraisal to determine fair market value and net value to VA. If the net value is not sufficient to indicate that the Government will be able to recover a portion of the maximum amount payable as a claim under guaranty, we pay only a claim for our maximum guaranty liability, and leave disposition of the property to the holder. This procedure is commonly referred to as a VA "no-bid", and its increased use has resulted from declining real estate values nationally and in the Houston region. The following table provides the rates at which VA "no-bids" have occurred:

NO-BIDS RELATED TO GUARANTEED LOAN FORECLOSURES

	FY83	FY84	FY85	FY86	FY87	FYTD88
Houston	0.07	0.2	7.3	19.3	42.5	34.8
U.S. Average	3.00	5.9	10.5	15.1	21.0	20.7

QUESTION 14: When and how often will an agency-acquired foreclosed property be appraised?

RESPONSE 14: Regional offices have been instructed to obtain a valuation of each acquired property within 15 days after assignment to a management broker. Adverse occupancy and redemption periods may delay this initial evaluation. However, after the initial sales listing, stations obtain supplemental valuations at least every six months until an acceptable offer to purchase is received and the property is sold.

QUESTION 15: What has been the price range of these properties? How many foreclosed properties has your agency held in each state (be specific)? What percentage of the total number of foreclosed properties -- private and government-owned -- in each state has your agency's portfolio represented?

RESPONSE 15: The data sheets following question/response 22, provide the requested information on VA property disposition activities by regional office for the last five fiscal years (1983-1987) and fiscal year 1988 to date (through February 1988). Since some of our regional offices manage properties in more than one State or only in a portion of a particular State, the totals are by regional office and not by State.

We do not maintain data on the percentage of VA's property holdings as related to the total number of properties foreclosed in each state.

QUESTION 16: What has been the average loss per property?

RESPONSE 16: The data sheets following question/response 22, provide the requested information on loss per property for properties sold during the previous 5 fiscal years (1983-1987) and fiscal year 1988 to date (through February 1988).

QUESTION 17: What has been the average holding time from foreclosure to disposition? What are the various types of costs associated with this holding time?

RESPONSE 17: The data sheets following question/response 22, provide the requested information on the average holding time, by regional office, for each of the previous 5 fiscal years (1983-1987) and fiscal year 1988 to date (through February 1988). Holding time is defined as the length of time from receipt of title until the property is sold.

The costs VA experiences in its management, marketing and sales activities are as follows:

Property Operating Expenses: Taxes, Special Assessments, Management Broker fees, Initial Clean Up and Property Maintenance

Capital Improvements. While some repairs may need to be made when VA first acquires a property, other repairs may be necessitated by time-related factors such as deterioration and vandalism.

Selling Expenses: Certain bonuses are payable when a property has been in inventory 6 months or more.

Imputed interest.

QUESTION 18: What percentage of the average unpaid principal balance are you able to recover in Texas? In the country as a whole?

RESPONSE 18: Our summary data does not isolate unpaid principal balance, but relates gains or losses to initial capital value, which is the value at acquisition:

RECOVERY PERCENTAGE
RELATED TO INITIAL CAPITAL VALUE

	FY83	FY84	FY85	FY86	FY87	FYTD88
Waco	95.3	101.0	91.0	93.2	86.2	80.7
Houston	96.0	96.7	81.0	82.1	70.8	71.1
U.S. Average	88.6	90.1	85.2	90.3	88.2	86.9

The recovery percentage is also related to total cost to acquire (property acquisition amount, plus claim payment):

RECOVERY PERCENTAGE
RELATED TO TOTAL COST TO ACQUIRE

	FY83	FY84	FY85	FY86	FY87	FYTD88
Waco	88.9	91.1	79.3	78.1	72.0	65.9
Houston	101.6	89.4	70.3	66.9	56.9	54.2
U.S. Average	79.5	77.3	71.4	73.3	71.6	69.8

QUESTION 19: Describe the various processes your agency has used to dispose of property. What is currently the most favored method? Why?

RESPONSE 19: Historically, except for properties sold to former owners, tenants and local urban homesteading programs (which do not represent a significant portion of our sales), VA has sold its acquired properties through open listings with private-sector real estate brokers. These brokers, estimated to number 80,000, receive multiple and individual sales listings which are similar to other listings used in the residential real estate industry.Auctions have been used by VA since 1985 to supplement broker sales and are used as a means of selling our oldest properties. Auctions in fiscal years 1985 through 1987 have accounted for 2.8 percent, 3.2 percent and 5.6 percent of all property sales during these respective years.

VA prefers selling its acquired properties through listings with real estate brokers. These sales may either be single property sales, or occasionally, properties may be sold in a bulk package. We favor this system because it provides the greatest competition among prospective purchasers, and generally results in the higher prices for the properties.

QUESTION 20: To what extent are properties repaired prior to being sold? What is the average amount per property spent on such repairs?

RESPONSE 20: Generally, properties are repaired to the extent that safety and health hazards known to VA are alleviated. If workloads permit, vacant properties are repaired to the extent that they can compare favorably with other homes which are listed for sale and are in competition with VA properties in the market place. When workloads are heavy, non-emergency repairs are usually not made.

AVERAGE CAPITALIZED IMPROVEMENTS - REHAB COSTS
(data not available by property type)

	FY83	FY84	FY85	FY86	FY87	FYTD88
U.S. Average	$1494	$1283	$1169	$981	$801	$731

QUESTION 21: What sales incentives are offered? What finance mechanisms are used? What financing packages are offered?

RESPONSE 21: The following sales incentives are offered to real estate brokers:

--5% sales commission with a sales commission bonus, up to $500, payable on properties priced $20,000 or less and for properties listed 6 months or more. Also, bonuses are paid to brokers when their clients are able to close sales transactions quickly.

We believe our pricing flexibility, along with vendee interest rates which are the same as the guaranteed interest rates, allows regional offices to compete in most markets. The relatively low closing costs, modest downpayments, and assumable 30 year fixed rate mortgage provides most purchasers with the stable financing they seek.

QUESTION 22: What do the buyer profiles look like? What protections are there against speculative purchasing?

RESPONSE 22: Although regional offices code certain vendee purchaser profile data into PMS (Property Management System), i.e., whether a spouse's income was used to qualify for the loan, whether the purchaser is an owner-occupant or an investor, the purchasers' race and sex, this information is not tabulated into a consolidated report.

VA prefers the sale of acquired properties to owner-occupants. When the financial benefits to VA are the same as they would be if the property were sold to an investor, it is VA policy to accept an offer from an owner occupant over that of an investor. Generally, investors are precluded from purchasing more than 5 properties with VA-provided financing during any six month period.

VA PROPERTY DISPOSITION ACTIVITY FOR FY 83 - BY REGIONAL OFFICE

REGIONAL OFFICE	AVERAGE SALES PRICE	PROPERTIES ON-HAND AT AT END OF FY	AVERAGE LOSS PER PROPERTY	AVERAGE HOLDING TIME
BOSTON	$25,063	13	$9,862	8.5
TOGUS	$26,585	68	$6,055	11.1
NEW YORK	$29,794	323	$7,809	13.6
BUFFALO	$17,745	53	$8,964	5.9
HARTFORD	$45,232	47	$6,593	10.7
NEWARK	$35,452	416	$10,103	9.4
PHILADELPHIA	$25,280	250	$8,670	5.4
PITTSBURGH	$28,163	260	$10,720	8.8
BALTIMORE	$48,621	66	$6,471	9.9
ROANOKE	$39,314	145	$6,165	8.7
HUNTINGTON	$33,532	98	$10,031	12.4
ATLANTA	$37,992	419	$3,530	8.8
ST PETERSBURG	$44,371	395	$6,584	6.0
WINSTON-SALEM	$36,143	178	$4,687	8.8
COLUMBIA	$36,308	142	$2,548	9.7
NASHVILLE	$36,110	553	$4,915	11.1
NEW ORLEANS	$42.758	100	$3,468	8.4
MONTGOMERY	$36,329	401	$4,091	10.7
JACKSON	$35,527	132	$6,052	9.1
CLEVELAND	$27,289	2852	$13,182	11.4
INDIANAPOLIS	$26,328	991	$7,385	13.5
LOUISVILLE	$38,990	131	$7,985	9.7
CHICAGO	$36,521	1828	$15,064	9.6
DETROIT	$26,068	2110	$7,621	15.8
MILWAUKEE	$42,183	650	$13,352	16.5
ST LOUIS	$29,741	319	$7,938	13.2
DES MOINES	$34,227	468	$10,053	18.0
LINCOLN	$37,326	96	$8,413	9.2
ST PAUL	$41,847	494	$8,890	11.2
FT HARRISON	$38,830	155	$11,379	15.5
DENVER	$55,533	755	$10,565	11.4
ALBUQUERQUE	$49,553	26	$11,292	8.6
SALT LAKE CITY	$57,790	91	$9,410	7.0
SAN FRANCISCO	$70,499	251	$8,340	9.1
LOS ANGELES	$74,389	1090	$12,073	9.9
PHOENIX	$56,332	335	$6,364	8.0
SEATTLE	$57,662	719	$12,310	11.9
BOISE	$41,269	158	$10,774	12.7
PORTLAND	$54,048	210	$14,154	12.4
WACO	$51,524	431	$5,645	8.0
LITTLE ROCK	$32,823	86	$5,231	9.6
MUSKOGEE	$37,429	112	$6,083	8.8
WICHITA	$33,915	410	$8,124	20.4
SAN JUAN	$35,333	241	$12,032	12.6
HONOLULU	$93,427	56	$14,517	10.8
HOUSTON	$51,365	757	$807	7.2
ANCHORAGE	$67,987	8	$1,489	16.2
WASHINGTON D.C	$64,794	90	$9,173	8.3
MANCHESTER	$43,676	15	$8,298	7.9
WHITE RIVER JUNCT	$32,515	9	$8,436	11.6
U. S. TOTALS	$40,515	19962	$9,030	10.5

VA PROPERTY DISPOSITION ACTIVITY FOR FY 84 - BY REGIONAL OFFICE

REGIONAL OFFICE	AVERAGE SALES PRICE	PROPERTIES ON-HAND AT AT END OF FY	AVERAGE LOSS PER PROPERTY	AVERAGE HOLDING TIME
BOSTON	$35,640	21	$5,455	5.7
TOGUS	$23,533	37	$11,914	13.8
NEW YORK	$35,806	169	$4,433	12.3
BUFFALO	$26,865	59	$7,286	6.7
HARTFORD	$56,034	81	$16,254	11.9
NEWARK	$40,740	513	$11,340	6.4
PHILADELPHIA	$27,524	151	$7,801	4.7
PITTSBURGH	$27,044	240	$12,084	9.8
BALTIMORE	$48,064	88	$6,792	7.2
ROANOKE	$45,914	138	$5,688	6.1
HUNTINGTON	$35,105	97	$10,411	11.6
ATLANTA	$41,357	469	$4,013	7.0
ST PETERSBURG	$47,230	362	$9,609	6.2
WINSTON-SALEM	$35,984	192	$6,325	7.6
COLUMBIA	$39,769	179	$3,925	7.2
NASHVILLE	$35,936	252	$4,087	8.4
NEW ORLEANS	$44,775	226	$7,407	7.5
MONTGOMERY	$34,596	110	$5,264	9.3
JACKSON	$36,445	155	$6,314	8.2
CLEVELAND	$24,855	1632	$14,624	12.0
INDIANAPOLIS	$26,912	1189	$9,749	12.7
LOUISVILLE	$34,202	131	$9,515	8.1
CHICAGO	$36,796	2048	$14,839	9.7
DETROIT	$26,257	1876	$11,600	18.0
MILWAUKEE	$40,732	542	$15,189	15.9
ST LOUIS	$31,881	324	$8,571	13.0
DES MOINES	$31,465	532	$12,518	18.7
LINCOLN	$33,259	160	$7,363	10.1
ST PAUL	$45,820	374	$11,208	11.0
FT HARRISON	$39,389	124	$14,010	16.2
DENVER	$59,085	498	$8,901	8.7
ALBUQUERQUE	$53,679	17	$10,560	6.2
-SALT LAKE CITY	$55,801	140	$10,697	5.5
SAN FRANCISCO	$76,292	295	$8,999	7.4
LOS ANGELES	$77,186	2212	$14,237	9.6
PHOENIX	$57,658	628	$7,823	8.1
SEATTLE	$54,357	704	$15,603	10.7
BOISE	$42,193	135	$11,315	11.9
PORTLAND	$50,411	269	$16,568	11.6
WACO	$51,772	646	$4,539	8.3
LITTLE ROCK	$29,336	90	$6,799	8.5
MUSKOGEE	$38,424	338	$7,488	6.0
WICHITA	$30,529	432	$8,667	19.1
SAN JUAN	$34,787	183	$9,979	12.7
HONOLULU	$85,265	25	$10,114	8.2
HOUSTON	$51,576	1685	$5,728	8.3
ANCHORAGE	$84,854	10	$8,163	5.4
WASHINGTON D.C.	$70,259	144	$6,009	7.1
MANCHESTER	$52,560	17	$12,122	6.2
WHITE RIVER JUNCT.	$35,562	2	$9,192	12.8
U. S. TOTALS	$41,035	20939	$10,611	10.2

VA PROPERTY DISPOSITION ACTIVITY FOR FY 85 - BY REGIONAL OFFICE

REGIONAL OFFICE	AVERAGE SALES PRICE	PROPERTIES ON-HAND AT AT END OF FY	AVERAGE LOSS PER PROPERTY	AVERAGE HOLDING TIME
BOSTON	$54,930	2	$6,327	4.3
TOGUS	$25,885	24	$10,413	9.3
NEW YORK	$43,057	86	+ $4,562	9.5
BUFFALO	$23,854	49	$12,714	11.0
HARTFORD	$55,669	45	$11,644	11.4
NEWARK	$41,552	383	$9,707	7.3
PHILADELPHIA	$27,213	217	$6,925	5.2
PITTSBURGH	$26,101	296	$16,214	11.5
BALTIMORE	$49,265	58	$8,871	8.2
ROANOKE	$43,917	164	$9,630	4.9
HUNTINGTON	$31,150	56	$14,289	14.7
ATLANTA	$40,054	467	$8,166	7.7
ST PETERSBURG	$44,190	508	$11,311	5.0
WINSTON-SALEM	$39,936	231	$8,352	7.6
COLUMBIA	$39,436	176	$7,728	7.9
NASHVILLE	$36,086	203	$8,145	7.9
NEW ORLEANS	$42,235	259	$13,474	11.5
MONTGOMERY	$30,615	193	$9,392	7.8
JACKSON	$33,570	76	$10,602	9.5
CLEVELAND	$27,917	1479	$15,401	10.0
INDIANAPOLIS	$26,371	960	$11,998	12.7
LOUISVILLE	$32,925	111	$11,476	9.5
CHICAGO	$34,231	1569	$17,272	11.0
DETROIT	$21,583	1012	$14,783	10.7
MILWAUKEE	$34,987	414	$19,116	16.5
ST LOUIS	$28,631	167	$10,999	13.0
DES MOINES	$26,795	658	$19,737	21.8
LINCOLN	$34,491	28	$12,425	10.6
ST PAUL	$45,723	472	$15,068	9.6
FT HARRISON	$39,933	102	$14,600	14.1
DENVER	$50,316	660	$19,628	8.7
ALBUQUERQUE	$41,731	39	$14,522	8.2
SALT LAKE CITY	$50,486	95	$17,520	6.2
SAN FRANCISCO	$67,582	310	$12,997	8.7
LOS ANGELES	$74,502	2229	$18,250	11.6
PHOENIX	$55,881	345	$10,969	10.1
SEATTLE	$52,634	392	$17,066	8.7
BOISE	$38,329	120	$12,757	11.0
PORTLAND	$43,226	224	$25,830	16.0
WACO	$43,536	789	$9,851	8.6
LITTLE ROCK	$32,483	121	$8,198	8.4
MUSKOGEE	$40,504	360	$11,469	6.9
WICHITA	$28,379	350	$10,947	17.5
SAN JUAN	$32,965	64	$11,297	12.9
HONOLULU	$87,155	8	$16,521	5.8
HOUSTON	$46,045	1793	$17,221	8.0
ANCHORAGE	$86,145	49	$15,786	5.9
WASHINGTON D C	$71,233	210	$12,248	9.5
MANCHESTER	$41,286	11	$9,627	7.4
U. S. TOTALS	$41,359	10692	$14,394	10.6

VA PROPERTY DISPOSITION ACTIVITY FOR FY 86 - BY REGIONAL OFFICE

REGIONAL OFFICE	AVERAGE SALES PRICE	PROPERTIES ON-HAND AT AT END OF FY	AVERAGE LOSS PER PROPERTY	AVERAGE HOLDING TIME
BOSTON	$52,750	0	$4,184	5.8
TOGUS	$26,778	30	$8,162	7.7
NEW YORK	$47,099	41	$13,598	9.0
BUFFALO	$26,237	40	$12,722	7.0
HARTFORD	$70,239	20	$1,211	11.4
NEWARK	$47,069	273	$5,422	8.7
PHILADELPHIA	$27,878	157	$7,125	4.5
PITTSBURGH	$25,408	270	$13,871	9.5
BALTIMORE	$54,668	58	$8,330	5.1
ROANOKE	$47,570	152	$8,641	3.6
HUNTINGTON	$30,110	50	$10,511	7.2
ATLANTA	$41,781	292	$7,191	8.1
ST PETERSBURG	$47,752	532	$10,686	5.0
WINSTON-SALEM	$43,630	227	$7,494	6.4
COLUMBIA	$41,107	217	$7,431	6.5
NASHVILLE	$37,115	131	$6,373	5.7
NEW ORLEANS	$43,152	309	$16,282	10.9
MONTGOMERY	$35,915	194	$7,761	4.9
JACKSON	$37,299	138	$10,721	6.5
CLEVELAND	$26,506	1226	$15,243	10.3
INDIANAPOLIS	$25,000	648	$12,126	12.9
LOUISVILLE	$36,269	113	$10,330	6.7
CHICAGO	$34,972	1885	$15,925	9.4
DETROIT	$24,471	950	$10,617	11.7
MILWAUKEE	$35,809	197	$19,636	11.9
ST LOUIS	$30,747	142	$10,140	7.6
DES-MOINES	$25,681	464	$21,758	20.5
LINCOLN	$37,120	111	$13,295	6.6
ST PAUL	$42,978	369	$16,584	9.1
FT HARRISON	$38,769	141	$17,506	11.3
DENVER	$51,763	1245	$20,231	7.6
ALBUQUERQUE	$46,067	40	$9,915	7.2
SALT LAKE CITY	$47,543	155	$18,109	6.0
SAN FRANCISCO	$73,873	157	$9,792	9.1
LOS ANGELES	$74,227	1667	$16,695	10.5
PHOENIX	$54,969	434	$14,379	6.5
SEATTLE	$54,187	390	$14,686	5.0
BOISE	$41,713	133	$14,192	8.2
PORTLAND	$42,402	99	$21,400	10.5
WACO	$44,037	752	$10,224	8.7
LITTLE ROCK	$32,813	122	$9,774	6.9
MUSKOGEE	$34,558	609	$17,164	7.8
WICHITA	$28,642	288	$11,235	10.5
SAN JUAN	$35,698	49	$12,745	8.1
HONOLULU	$98,327	12	$13,351	2.1
HOUSTON	$42,052	4572	$19,077	8.9
ANCHORAGE	$91,357	165	$22,451	8.3
WASHINGTON D C	$68,763	266	$12,784	10.1
MANCHESTER	$65,914	10	$4,707	5.9
U. S. TOTALS	$43,367	20567	$13,687	8.8

VA PROPERTY DISPOSITION ACTIVITY FOR FY 87 - BY REGIONAL OFFICE

REGIONAL OFFICE	AVERAGE SALES PRICE	PROPERTIES ON-HAND AT AT END OF FY	AVERAGE LOSS PER PROPERTY	AVERAGE HOLDING TIME
BOSTON	$80,000	0	($14,562	1.0
TOGUS	$32,714	10	$6,507	6.6
NEW YORK	$52,702	36	($13,438	10.9
BUFFALO	$27,567	25	$11,525	6.6
HARTFORD	$79,425	4	($7,431	10.5
NEWARK	$53,259	267	$656	8.9
PHILADELPHIA	$29,805	126	$6,847	4.2
PITTSBURGH	$21,654	192	$16,701	12.0
BALTIMORE	$57,846	79	$6,480	5.7
ROANOKE	$54,426	233	$8,892	3.6
HUNTINGTON	$31,914	70	$13,088	6.1
ATLANTA	$45,196	243	$8,432	5.2
ST PETERSBURG	$50,678	515	$10,406	4.4
WINSTON-SALEM	$46,553	413	$9,052	4.6
COLUMBIA	$44,617	231	$10,956	5.3
NASHVILLE	$38,729	121	$7,619	3.6
NEW ORLEANS	$34,985	287	$24,169	8.7
MONTGOMERY	$35,913	199	$8,590	3.5
JACKSON	$33,852	93	$13,157	4.6
CLEVELAND	$26,526	859	$15,653	10.3
INDIANAPOLIS	$25,756	622	$15,490	10.4
LOUISVILLE	$35,209	128	$11,643	6.2
CHICAGO	$37,084	1440	$13,760	10.9
DETROIT	$24,154	972	$10,840	10.7
MILWAUKEE	[illegible]	175	$16,220	5.6
ST LOUIS	$51,901	146	$7,501	5.5
DES MOINES	$24,926	339	$22,166	13.4
LINCOLN	$30,140	106	$11,905	5.5
ST PAUL	$41,886	339	$17,504	6.7
FT HARRISON	$31,295	162	$22,040	10.3
DENVER	$49,115	2030	$26,318	7.9
ALBUQUERQUE	$47,299	480	$15,845	8.8
SALT LAKE CITY	$50,431	21	$18,354	4.5
SAN FRANCISCO	$92,185	268	$3,824	6.6
LOS ANGELES	$77,880	1657	$16,125	7.2
PHOENIX	$57,508	611	$14,130	5.8
SEATTLE	$55,525	862	$16,513	5.4
BOISE	$38,906	135	$15,212	7.8
PORTLAND	$46,857	107	$15,621	9.1
WACO	$42,815	1152	$14,604	5.9
LITTLE ROCK	$32,742	193	$11,557	5.4
MUSKOGEE	$41,329	865	$20,005	5.4
WICHITA	$31,223	262	$10,858	7.7
SAN JUAN	$37,537	763	$12,200	6.5
HONOLULU	$71,346	36	$16,229	1.8
HOUSTON	$39,987	5697	$25,164	12.0
ANCHORAGE	$80,792	261	$20,765	11.5
WASHINGTON D.C.	$82,143	250	$13,376	10.2
MANCHESTER	$58,325	4	$5,752	6.7
U.S. TOTAL	$43,900	[illegible]	$15,452	8.0

VA PROPERTY DISPOSITION ACTIVITY FOR FYTD 88 (through Feb 88) - BY REGIONAL OFFICE

REGIONAL OFFICE	AVERAGE SALES PRICE	PROPERTIES ON-HAND AT AT END OF FY	AVERAGE LOSS PER PROPERTY	AVERAGE HOLDING TIME
BOSTON	None Sold	0	$0	0.0
TOGUS	$23,700	14	$8,069	6.8
NEW YORK	$35,147	23 +	$9,045	3.3
BUFFALO	$28,050	25	$13,553	5.4
HARTFORD	$87,012	3 +	$15,163	5.0
NEWARK	$56,075	194 +	$1,698	8.2
PHILADELPHIA	$27,183	114	$6,555	4.1
PITTSBURGH	$23,899	181	$15,263	9.2
BALTIMORE	$65,981	75	$4,982	5.6
ROANOKE	$58,502	347	$10,356	3.6
HUNTINGTON	$29,194	69	$12,822	5.0
ATLANTA	$44,618	361	$12,304	4.4
ST PETERSBURG	$50,802	522	$9,634	3.4
WINSTON-SALEM	$45,248	355	$11,899	4.0
COLUMBIA	$44,352	281	$12,706	5.6
NASHVILLE	$39,766	141	$7,394	2.9
NEW ORLEANS	$32,789	313	$21,361	7.2
MONTGOMERY	$37,600	184	$11,273	2.9
JACKSON	$35,074	119	$13,673	3.5
CLEVELAND	$27,052	929	$15,877	8.8
INDIANAPOLIS	$26,645	665	$10,639	7.7
LOUISVILLE	$35,458	161	$11,848	5.5
CHICAGO	$39,940	1529	$13,719	12.8
DETROIT	$24,338	1089	$11,013	9.3
MILWAUKEE	$38,668	210	$15,806	4.4
ST LOUIS	$31,370	142	$8,986	4.9
DES MOINES	$23,617	409	$17,911	14.4
LINCOLN	$36,090	92	$16,908	3.9
ST PAUL	$40,359	406	$17,954	5.8
FT HARRISON	$33,381	193	$23,355	8.5
DENVER	$46,261	1807	$28,712	7.9
ALBUQUERQUE	$46,981	118	$17,174	8.1
SALT LAKE CITY	$40,942	377	$24,482	6.3
SAN FRANCISCO	$79,174	255	$10,495	6.1
LOS ANGELES	$82,696	1644	$10,343	5.6
PHOENIX	$58,251	713	$16,118	5.6
SEATTLE	$55,354	867	$17,813	6.0
BOISE	$34,972	211	$17,743	5.6
PORTLAND	$46,912	104	$17,628	6.0
WACO	$41,183	1484	$18,838	4.9
LITTLE ROCK	$30,410	202	$12,725	4.4
MUSKOGEE	$32,846	442	$19,135	3.1
WICHITA	$32,923	270	$10,306	5.8
SAN JUAN	$40,068	71	$15,170	4.0
HONOLULU	$91,224	11	$13,719	1.4
HOUSTON	$32,113	5796	$24,675	9.6
ANCHORAGE	$64,411	286	$44,491	16.4
WASHINGTON D C	$65,687	226	$15,096	8.6
MANCHESTER	$51,967	3	$4,995	10.0
U. S. TOTALS	$43,501	24033	$16,976	6.8

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

APR 18 1988

Honorable Alan Cranston
United States Senate
Washington, D.C. 20510

Dear Senator Cranston:

Thank you for your letter of March 11, 1988; forwarding a series of questions on our current policies and procedures. Our answers to those questions are as follows:

1. The number of foreclosures, and the inventories of foreclosed properties, have increased substantially in Texas in the past five years. What aspects of this problem are unique to Texas? Under what conditions could this problem be replicated in other parts of the country?

   With regard to single family units, the dramatic increase in foreclosures in Texas (see chart following #15) is mainly a result of the depressed economic conditions within the state caused by falling oil prices. This is not only true in Texas, but in other areas in which the local economy is heavily dependent on oil related industries. Job losses caused by industry closings, layoffs, bankruptcies, etc., have all contributed to an increase in foreclosures. The state also experienced a period of overbuilding in anticipation of continued economic growth; when this did not occur the market became glutted with unsold single family properties and often unfinished projects.

   With regard to multi-family projects, the number of actual foreclosures has not yet reached what we would consider a significant level.

   The situation in Texas could occur in any area which experiences severe economic decline and which has large concentrations of government-insured mortgages. Areas which have little diversity in their economic base are particularly susceptible to such a problem.

2. There are currently foreclosure problems in Alaska and Colorado. How are they similar to the Texas problem? How do they differ?

   The problems affecting single family foreclosures in these areas are similar because they are caused primarily by the effects the oil situation has had on their economies. Problems in the farming industry have also contributed to economic decline, particularly in Texas and Colorado.

   The economy in Alaska prospered during construction of the oil pipeline. With that completed, the number of people needing housing, and particularly people with the high incomes paid by pipeline construction, in the state has been on a decline.

   The inventory chart following question #15 reflects the serious rate of of foreclosures in these states.

With regard to multi-family projects, the number of foreclosures since the economic downturn has been negligible: one project in Alaska, none in Colorado.

3. What is your response to the following criticism of the way government entities dispose of foreclosed properties:

   "The principle objective of government entities in the area of property disposition is to recoup their losses as rapidly as possible. This objective leads to selling of properties at below market prices. Selling at such prices leads to a further cycle of foreclosure."

   With regard to single family units, our objective in property disposition is to sell all properties as quickly as possible at the highest possible price. The values placed on properties when offered for sale reflect our best estimate of fair market value and every effort is made to generate and accept offers at or close to fair market value. Lower than anticipated sales prices are usually indicative of the market conditions in a given area and such conditions affect not only government-owned properties but also private sales. Conversely, areas where economic and market conditions are more stable, higher market prices are usually the result.

   With regard to multi-family projects in the above mentioned states, HUD currently only has an inventory in the Houston area; our present disposition policy is to hold the properties until an upturn in the economy is evidenced.

4. A separate criticism of federal property disposition is that government entities have had no coordinated strategy. What efforts has your agency made to coordinate property disposition activities with those of other federal agencies and federal government-sponsored entities? What types of additional coordination would you recommend? What would be the benefits? What, if any obstacles -- legislative or otherwise -- prevent or hinder such coordination?

   The lack of more established coordination between federal agencies must be taken in context. There hasn't been a history of coordinated marketing strategies with FSLIC, FDIC, VA and FHA--in part because there had been no need for one. Traditionally, each agency could pursue its strategy of property disposition knowing that the volume of homes or rental units it was maintaining or selling was too small to affect the overall market. While the absolute number of units held by federal agencies has grown in the energy belt, the problem must be seen in the context of a very large and active market. Overall, we still believe that our actions do not have a significant impact on sales-prices or total sales volume.

   Many HUD Field Offices occasionally have informal meetings and discussions with other federal agencies to discuss matters of common interest and exchange ideas relative to property disposition. There is recognition that as much coordination as possible is desirable.

However, in some respects, the competition that exists between agencies can also be a positive force, fostering innovation and creativity in the ways we address the issue. Healthy competition spurs each agency to experiment with new techniques and to devise new ways of marketing their inventory.

5. Under what circumstances might the potential loss on a foreclosed property be so great that it would be more advantageous for the federal government to hold on to that piece of property?

   HUD's experience in disposing of foreclosed single family properties has been quite good with respect to holding the line on sales prices. In most instances sales prices have been increasing even in economically depressed areas such as the energy belt.

   Generally, it is more to our advantage to sell a property at a reasonable price even if a loss results than to risk potentially higher losses at a future time by holding a property. Normally, the longer a property is in inventory the higher the holding and administrative costs. Also potential losses from vandalism and deterioration are increased. Neighborhoods are also spared the burden and concern of unsightly vacant properties.

6. How might a public, for-profit entity be helpful in the management and disposition of government-acquired foreclosed properties? What would be the advantages and disadvantages of creating such an entity?

   HUD has historically used for-profit entities in its management and disposition programs: Area Management Brokers for single family properties and Project Managers for Multi-family. We cannot see any advantage over the existing system in the creation of a new public, for-profit entity; if uniformity in approach is the goal, a simpler route would be the development of a general "model" for the various agencies to use. A major, and critical, disadvantage to the creation of a new entity is that it is directly competitive with private entities on a basis that legitimately belongs only to the latter: profitability.

7. The attached New York Times article of April 28, 1987, reports that the Houston Housing Authority has purchased 207 homes repossessed by the FHA to use as low-income apartments. Should this activity be expanded? How could your agency better target the disposition of foreclosed properties to benefit low- and moderate-income homeowners or renters?

   This program, as with any other which would result in the creation or expansion of new sales markets, is worthy of further consideration. Single Family Property Disposition (PD) now, as evidenced by the newspaper article, makes properties available to local governments such as public housing authorities on a non-competitive basis and at 90 percent of the property's fair market value.

Some of our incentives now being used, e.g. $100 downpayments, adjustable rate mortgages and interest buydowns, often afford low and moderate income families an opportunity to bid on properties and to become homeowners. Such programs often permit individuals who otherwise could not do so to become homeowners. This activity should be expanded only if it makes sense on a cost/benefit basis to the local entity, as it did in Houston. From the standpoint of Multifamily, "scattered site" public housing, for example, is notoriously more expensive to operate; Houston was able to combine very inexpensive acquisition costs with a segment of its tenant population that is both willing and able to occupy the homes as "quasi-homeowners" particularly in terms of maintenance.

8. To what extent could your agency's response to the Texas experience make it more difficult for low- and moderate-income families to buy homes in the future?

The Department has been concerned that simply to tighten underwriting criteria would not be an appropriate response to our experience in Texas. Tightening underwriting, in the sense of requiring more income and assets, would merely deny the opportunity to purchase a house to the very people HUD endeavors most to serve. What we have tried to do is restrict abuses of the program. Some of the measures we have taken are requiring: (1) mortgage credit approval on assumptions during the first year or two of the mortgage; (2) picture ID's and social security numbers from prospective mortgagors; (3) adjustments to the values of comparables used in appraising properties for FHA mortgage insurance when the comparables have substantial seller buydowns: (4) adjustments to the allowable mortgage amount in a transaction involving a substantial seller buydown; (5) larger downpayments on investor loans; and so forth.

These and other similar measures have been, we think, effective while at the same time consistent with HUD's desire to assist low and moderate income homebuyers.

9. (a) How soon after an agency loan goes into default does the agency receive notice of the default?

90 days for single family.

With regard to multifamily properties, the mortgagee must give notice to HUD of any default of 30 days duration or greater within 30 days of the default.

(b) What actions are taken by the agency upon receipt of such notice

Reports are generated which HUD uses to target lenders for on-site reviews of lender origination and servicing practices. In addition, some lenders provide lists of counseling agencies to defaulting mortgagors for single family.

With regard to multifamily properties, the responsible field office initiates contact with both mortgagor and mortgagee to coordinate reinstatement of the loan. Reinstatement strategies may include Section 8 subsidy, Flexible Subsidy, waivers of non-essential escrows and application of excess escrows.

(c) What does the agency do to provide loan servicing and financial counseling to borrowers in default on such loans?

For single family, HUD procedures require lenders no later than the second month of delinquency to provide borrowers with a pamphlet, "Avoiding Mortgage Default," which provides suggestions on how to save their homes.

HUD regulations require lenders to have a face-to-face interview with delinquent mortgagors before three full monthly payments are due and unpaid.

With the HUD Assignment Program letters, mortgagees must provide the name of a counseling agency to defaulting borrowers.

With regard to multifamily properties, although HUD does not directly service insured multifamily loans, it does monitor management, maintenance and financial affairs. Because multifamily loans are professionally developed and managed, financial counseling by HUD is generally unnecessary.

10. What special steps are taken in areas such as Houston where your agency has acquired sizeable inventories of foreclosed properties, with respect to--

(a) loan servicing;
(b) property acquisition, and
(c) property disposition?

(a) With regard to single family housing, steps are taken to monitor mortgagees' loan servicing and origination practices. In addition, the Department has recently expanded its monitoring of the large multi-state servicers, some of which have sizeable inventories of foreclosed properties. Specifically, HUD's

Headquarters Monitoring Division is now responsible for monitoring the performance of the top 100 multi-state servicers who account for more than 60 percent of the insurance in force. This will enable HUD to evaluate more accurately, on a national basis, the performance of these large servicers.

(b) Staffing levels are reviewed and, where possible, additional staff is added to handle the increases. Additional training is provided to Property Disposition staffs.

(c) As inventories and market conditions require, Houston and other jurisdictions are permitted to use special sales techniques to stimulate sales. Among the current techniques now in use are:

-- Reduction of downpayments to as low as $100 for owner-occupants, where necessary.

-- Sales without competition to local governments at 90 percent or lower depending upon time in inventory and whether the properties have had adequate market exposure.

-- Sales of specific aged and/or hard to sell properties for as low as 50 percent of the original listing price.

-- Expansion of the escrow program to include non-MPS items.

-- Painting or carpeting allowances, up to the lesser of HUD's estimate to accomplish the work or 5 percent of the list price.

-- Expenditure of up to $2,500 for upgrading properties, prior to market exposure, with highly visible improvements such as painting, landscaping, general cleaning, etc.

-- Interest buydown program whereby HUD will pay additional points to mortgagees in return for specific commitments to reduce the interest rate up to one and one-half percent.

-- Exclusive management and sales contracts for specific isolated hard to sell properties.

With regard to multifamily housing, as indicated above we do not have a sizable number of multifamily properties in Houston but those that we do have are in a holding status. We have undertaken extensive servicing in Texas and elsewhere which has prevented or delayed a great many assignments and foreclosures.

11. What has your agency done to educate real estate agents regarding, and to increase their participation in, your property disposition program?

Under present policy, industry meetings are held with real estate brokers at least every six months. On an ongoing basis, brokers are advised of policy changes and new sales procedures, as needed. Additionally, information booklets covering PD sales procedures are made available to all participating brokers and to those who are interested in participating for the first time.

Other steps taken by various offices include:

1. Radio and TV ads
2. Video and slide presentations.

12. What is your agency's policy regarding:

(a) Interest rate-levels on agency financing offered on foreclosed properties?

Normally, direct financing is not offered on the sale of PD properties. On selected single family properties, a buydown on private financing may be offered to eligible buyers. Otherwise, arranging for financing is the responsibility of the buyer and interest rates are determined by his/her lending institution.

(b) Downpayment requirements on sales of foreclosed properties?

PD has control over downpayment requirements only when properties are offered for sale with HUD-insured financing. In those instances, downpayment requirements are the same as required for any HUD-insured mortgage, unless there is a need to lower them further to stimulate sales. Under such circumstances, an office may reduce downpayments for owner-occupants to as low as $100. Downpayments for investors may be lowered to three percent of the bid price on selected properties. Downpayment requirements on PD properties offered without HUD-insured financing are at the discretion of the lender.

(c) Use of auctions to sell agency-acquired foreclosed properties?

Our experiences have shown that auctions usually produce lower sales offers than our standard sealed bid sales procedure. As a result, our present policy requires that properties be actively marketed under the sealed-bid procedure for at least 5 months before they can be auctioned. Exceptions are made for known hard to sell properties.

(d) Rental of agency-acquired foreclosed properties

Our single family policy is to use rental only as appropriate to supplement sales or other designated agency-sponsored programs. Generally, our experience has shown that single family properties are more marketable vacant than occupied.

Our multifamily policy is to maintain the properties as rental units to assure that there is no adverse effect on current tenants.

(e) Retaining a percentage of the equity in such properties when they are sold by means of agency financing?

Retaining a percentage of equity is not applicable, since agency financing is not presently used.

13. What steps is your agency taking to prevent or minimize the impact which a "Houston-like" -- i.e. economically-depressed --market could have on it?

With regard to single family, the Department is considering a number of measures which could be effective in energy-impacted areas. It should be noted, however, that the following measures are only under consideration at present and that no decision has yet been made with respect to their implementation.

1. Discontinue investor loans on prepared construction cases.
2. Require purchasers to have a minimum of one month's income in the form of liquid assets after closing the transaction.
3. Require mortgagors to have a minimum of two years with their present employer. Here, exceptions could be made where the nature of employment would typically preclude this situation.
4. Underwrite the mortgage at the interest rate on the note even if there is a temporary interest buydown.

Multifamily staff are currently attempting to forestall assignments and foreclosures through intensive pre-default and pre-foreclosure servicing.

14. When and how often will an agency-acquired foreclosed property be appraised?

With regard to single family housing, the estimated fair market value of a property is determined by the Field Office within seven workdays of receipt of the notice of acquisition. After which, the estimated fair market value is re-analyzed at least every 30 days until a property has been sold. If, upon re-analysis, a change in the estimate is necessary, the property is then readvertised at the new estimate.

15. What has been the price range of these properties? How many foreclosed properties has your agency held in each state (be specific)? What percentage of the total number of foreclosed properties -- private-and government-owned -- in each state has your agency's portfolio represented?

(See chart next page)

Note: The total number of single family properties held in each oil state is listed below by FY. The total was determined by the inventory on hand at the beginning of the FY, plus acquisitions for the FY. The totals include properties which may have been carried from one FY to the next.

	Texas	Oklahoma	Louisiana	Alaska	Colorado
FY 83	1,567	300	272	1	991
FY 84	2,714	581	384	1	1,675
FY 85	4,828	1,253	537	6	3,414
FY 86	9,714	2,551	935	96	5,846
FY 87	18,596	5,170	1,713	836	10,582
FY 88 - 2/29/88	15,869	4,904	1,767	1,268	10,713

Average Sales Price Range

Texas	Oklahoma	Louisiana	Alaska	Colorado
$28,773 - 36,751	$30,759 - 35,134	$23,480 - 33,973	$16,350 - 80,532	$42,640 - 51,529

No information is maintained on the percentage of total foreclosures in each state.

With regard to multi-family projects, HUD has sold 5 projects in Texas at prices ranging from $181,000 to $1,035,000. At the present time we own 15 properties having a total of approximately 2,800 units.

16. What has been the average loss per property?

National Average Loss Per Property - Single Family

Fy 83 - $14,546.20
FY 84 - $14,815.74
FY 85 - $17,466.09
FY 86 - $17,383.23
FY 87 - $19,661.21
FY 88 - 1/31/88-$20,879.79

Multi-Family Experience

Properties Sold	Debt at Acquisition	Sale Price
Cedar Ridge A	$ 646,570	$ 297,072
St. Paul Housing	165,826	233,999
Rolingbrook	3,326,731.37	901,010
Continental	5,269,931.74	1,035,000
Highland Terrace II	3,518,696.00	181,000

17. What has been the average holding time from foreclosure to disposition? What are the various types of costs associated with this holding time?

National Average Single-Family Turnover Rate
(Period Between Acquisition and Sales Closing)

FY 83 - 7.3 months   FY 84 - 5.3 months   FY 85 - 4.9 months
FY 86 - 6.7 months   FY 87 - 7.2 months   FY 88 through Feb. 29, 1988 - 8.8 months

Holding costs include taxes, depreciation, yard maintenance, and management fees. The daily rate for these costs is estimated at $9.06 per property.

The average holding time for multi-family projects is 10 months.

18. What percentage of the average unpaid principal balance are you able to recover in Texas? In the country as a whole?

Single Family	Average Cost of Acquisition *	Average Sales Price	Average Recovery (%)
Ft. Worth Office			
FY 83	$33,984.42	$26,341.79	78
FY 84	39,336.73	30,728.34	78
FY 85	41,381.15	31,530.43	76
FY 86	45,148.96	34,417.55	76
FY 87	51,648.66	37,867.65	73
FY 88 - Jan. 31, 1988	54,370.84	39,577.16	73
Houston Office			
FY 83	$38[illegible]9.38	$35,321.25	91
FY 84	48,484.65	38,414.96	79
FY 85	55,231.63	40,054.87	73
FY 86	56,687.61	39,407.89	70
FY 87	58,093.54	35,920.44	62
FY 88 - Jan. 31, 1988	58,479.70	35,079.07	60
Lubbock Office			
FY 83	$23,508.59	$18,900.78	80
FY 84	34,718.78	26,063.25	75
FY 85	39,861.53	27,740.87	70
FY 86	39,910.16	25,725.89	64
FY 87	42,829.35	28,286.73	66
FY 88 - Jan. 31, 1988	43,214.54	26,670.47	62
San Antonio Office			
FY 83	$32,269.95	$25,249.42	78
FY 84	45,152.87	34,049.23	75
FY 85	46,275.53	31,758.48	69
FY 86	43,714.74	34,854.59	80
FY 87	56,317.51	38,780.86	69
FY 88 - Jan. 31, 1988	60,316.74	39,193.55	65
National			
FY 83	$31,489.61	$21,751.30	69
FY 84	38,762.78	28,137.12	73
FY 85	44,688.60	31,399.13	70
FY 86	47,478.96	33,974.51	72
FY 87	52,857.81	37,478.58	71
FY 88 - Jan. 31, 1988	54,560.99	38,115.87	70

* Includes interest, legal fees, unpaid principal balance, etc.

19. Describe the various processes your agency has used to dispose of property. What is currently the most favored method? Why?

Generally, all single family properties are sold on an open and competitive basis to the highest acceptable bidder. Examples of the methods used to accomplish this include:

1. 10-day simultaneous bid period.
2. Extended listings.
3. Auctions.
4. Bulk sales.
5. FHA insured sales.
6. FHA insured sales with repair escrow.

In addition to the above, direct sales (without competition) may be made to local governments, certain non-profit organizations and urban homesteading agencies.

The preferred methods of sale are the 10-day simultaneous bid period and sales to urban homesteading agencies. Generally, these sales produce the greatest net return to the government.

HUD has offered multifamily properties with Purchase Money Mortgages; has negotiated sales to specific purchasers, frequently governmental entities; and, for most properties, has sold them by sealed bid on an all-cash basis.

20. To what extent are properties repaired prior to being sold? What is the average amount per property spent on such repairs?

Generally, single family properties are offered for sale in their as-is condition, without repairs. However, repairs are made when it is anticipated that they are cost effective and will enhance the market value of a property. The average costs to repair properties is currently $2,055.

With regard to multi-family projects, we are statutorily required to maximize occupancy and maintain properties in decent, safe and sanitary condition. Expenditures to accomplish this can range from a few hundred dollars to, occasionally, $10-20,000 per unit.

21. What sales incentives are offered? What finance mechanisms are used? What financing packages are offered?

No financing is offered on single family units. HUD-insured mortgages are offered on properties meeting our minimum property standards. Sales incentives offered are identified in 10(c) above.

In multifamily property disposition the major portion of acquisitions are offered for sale by sealed bid, all-cash with repairs to be completed by the purchaser. In Texas, particularly in Houston, we are holding the inventory. When these properties are offered, it is presumed that the offers will be an all-cash, as-is basis with financing the responsibility of the purchasers.

22. What do the buyer profiles look like? What protections are there against speculative purchasing?

It is estimated that between 50-75 percent of our single family buyers are owner-occupants rather than investors, with incomes ranging from moderate to high.

Investors are a vital part of our program. Their participation is encouraged, since all sales result in income to the government and reduced holding costs. Adequate pricing of properties and our thresholds for acceptance of offers are sufficient to insure that HUD is protected against excessively speculative purchasing.

Most multi-family purchasers are corporations or individuals seeking investment opportunities in rental properties.

I hope this information will adequately answer your questions.

Sincerely yours,

Thomas T. Demery
Assistant Secretary

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

February 3, 1988

Honorable Alan Cranston
Chairman, Subcommittee on
Housing and Urban Affairs
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Senator Cranston:

I enjoyed meeting last week with the Majority and Minority staffs of the Senate Veterans' Affairs Committee and the Senate Housing Subcommittee to discuss the rise in foreclosures that are occurring in the energy belt.

As you noted in your letter inviting me to the meeting, mortgage foreclosures have been rising throughout the country in recent years, and unfortunately, show no signs of abating. In FY 1987, FHA paid over $4 billion in single family insurance claims--versus only $2.1 billion in 1985. We believe that part of this increase in claims is due to the fact that FHA has seen a larger volume of new business during the past two years. However, the economic distress that certain areas are experiencing is also a cause of the surge in foreclosures and claims.

Parts of our country have been devastated by sharp declines in commodity prices in general and energy prices in particular. As the impact of production cut-backs rippled through local economies, mortgage delinquencies have climbed and home resale values dropped. Conditions in these markets reflects not just a decline in the price of oil, but also earlier real estate speculation and overbuilding.

In addition, other economic events (e.g., the impact of the devaluation of the Mexican peso and the world-wide surplus of grains and cereals), have also affected levels of employment, incomes and consumer spending in these States. Thus, a recent analysis of FHA field offices with high rates of defaults and foreclosures found that eight of the top twelve were in the energy belt area. The top four were Anchorage, Denver, Tulsa and Houston.

Ultimately, mortgage insurance is placed at risk in markets with declining real estate values. In rising real estate markets, families facing illness, divorce or job loss are at least able to sell their home and pay off the mortgage. In markets where values are plummeting, defaults can occur even when no personal misfortune has occurred. The sad truth is that in some markets, borrowers who have the capacity to make payments but who know that their home is now worth considerably less than the mortgage debt have simply "turned in the keys and walked away."

The boom and bust cycle have had a devastating effect on rental housing in many of these markets. Apartment projects that began construction during a time of strong economic and demographic growth were often completed after the collapse of energy prices and the exodus of workers had begun. In other cases, projects were built despite the lack of a market--merely because of the tax benefits that were available prior to Tax Reform. The combined impact of an oversupply of new units and declining job opportunities has had a devastating effect on rent levels and project feasibility. In some markets, rent levels have been steadily declining--while occupancy levels remain below the breakeven point.

To give you an idea of the magnitude of the problems we are now experiencing, let me cite some statistics. In Colorado, FHA had an inventory of 993 foreclosed homes at the end of FY 1985. Last month, our inventory stood at 5,654 homes--an increase of 470 percent! Our inventory jumped 900 percent in Oklahoma, almost 500 percent in Texas and over 400 percent in Louisiana. We now hold $475 million in assigned multifamily mortgages in these four States, up 96 percent from the FY 1985 levels. Nationally, FHA received $455 million in multifamily claims in 1987--up from only $61 million in 1985. Clearly, under both our homeownership and rental housing programs, FHA is experiencing serious difficulties in the energy belt States--and these difficulties have yet to show signs of abating.

We have taken a number of steps to deal with our growing inventory. On the single family side, we continue to emphasize the importance of placing acquired homes back into private hands as quickly as possible. No one benefits from having homes remain in our inventory. But we are also sensitive to the need to avoid "dumping" large numbers of properties in a declining market. Thus, nationally we have seen acquisitions jump from 45,000 in 1985 to 69,000 in 1987--and sale rise from 38,000 in 1985 to 63,000 in 1987. Yet despite the surge in inventory and higher sales volume, we received higher sales prices in 1987 than we did in 1985! We have even been able to hold the line in hard pressed areas: In Louisiana and Oklahoma, our average sales price rose between 1985 and 1987. In Texas, it was virtually unchanged, and while sales prices in Colorado fell 15 percent between 1985 and 1986, sales prices there actually rose slightly in FY 1987.

We establish a fair market value for each home based on the standard comparable sales approach and make every effort to obtain this price through the competitive sealed bid process. In order to make the sale easier, many of our acquired homes are sold with FHA insurance and, where necessary, monies escrowed for repairs. We also reduce downpayments to as low as $100, offer sales commissions of ten percent, make minor repairs, offer interest buydowns, and execute exclusive sales contracts for hard-to-sell properties. Field offices are allowed to accept bids of no less than 80 percent of the fair market value for properties that are in our inventory less than six months, and 70 percent for those that remain in our inventory for six months or longer.

On the multifamily side, in the four States cited, we have sold 14 projects for $14.5 million. While the amounts received varied significantly by project, condition of the property, etc., the overall results have been stable prices for our inventory. We have made available over $1.5 billion in Section 8, Flexible Subsidy and other subsidy funds in Colorado, Texas, Oklahoma and Louisiana between FY 1985-87. The availability of subsidy funds has played a major role in maintaining many lower- and moderate income rental projects and preventing further insurance claims to FHA. We have also established a Task Force to monitor the status of all FHA-insured projects in Houston and to recommend actions on any mortgage assigned to HUD from that area. A similar Task Force is being established for New Orleans.

You asked that we discuss the recent Washington Post article that chronicles the serious problems in Texas and the apparent lack of coordination among Federal agencies. I share the opinion of others at the meeting that the article overstates the extent of the problem. Thus, according to the Houston Board of Realtors, there were 37,024 homes listed for sale in the Houston area at the end of December. HUD is currently listing 1,119 homes in the area--or roughly 3 percent of all homes listed for sale!

I don't want to minimize conditions in this region or discount the very difficult task that each of the agencies now face. For example, HUD's total unsold home inventory (including homes not yet ready for listing) is almost 4,000 units. But the important point is that our activity still represents only a fraction of total sales volume even in the most distressed markets. For the entire State of Texas, HUD holds only around 10,000 homes. We estimate that all Federal agencies combined hold about 25,000 homes--or roughly one-tenth of the existing home sales that will occur in the State this year.

The lack of more established coordination between Federal agencies must also be taken in context. There hasn't been a history of coordinated marketing strategies with FSLIC, FDIC, VA and FHA--in large part because there had been no need for one. Traditionally, each agency could pursue its strategy of property disposition knowing that the volume of homes or rental units it was maintaining or selling was too small to affect the overall market. While the absolute number of units held by Federal agencies has grown in the energy belt, the problem must be seen in the context of a very large and active market. Overall, I still believe that our actions do not have a significant impact on sales prices or total sales volume.

In some respects, the competition that exists between agencies can also be a positive force, fostering innovation and creativity in the ways we address the issue. Healthy competition spurs each agency to experiment with new techniques and to devise new ways of marketing their inventory. As each of us learns from the successes and failures of the others, we will all do a better job of disposing of acquired properties in a rational and cost-effective manner.

I appreciate the opportunity that you have given me to address this challenging task and look forward to working with the committees in the months ahead.

Sincerely Yours

Thomas T. Demery

FDIC
Federal Deposit Insurance Corporation
Washington DC 20429

April 20, 1988

Honorable Alan Cranston
Chairman
Subcommittee on Housing and Urban Affairs
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C 20510

Dear Mr. Chairman:

Thank you for your letter of March 11, 1988 requesting information regarding the Federal Deposit Insurance Corporation's Property Management and Disposition Program. Our answers to your questions are provided as an enclosure to this letter.

If you have any further questions, please let me know.

Sincerely,

Steven A. Seelig
Associate Director
Division of Liquidation

Enclosure

Page One

Question 1.

The number of foreclosures and inventories of foreclosed properties have increased substantially in Texas in the past five years. What aspects of this problem are unique to Texas? Under what conditions could this problem be replicated in other areas of the country?

Response:

(a) Foreclosure activity in Texas is directly related to the adverse effects of depressed petroleum prices in recent years. Many businesses in the state which were not directly involved in petroleum production and sales nevertheless, were, dependent upon those activities for their economic livelihood. Present problems in the real estate industry are a reflection of the general slowdown in the Texas economy, and an imbalanced supply-demand environment.

(b) These conditions not only can be, but have been, replicated in other energy dependent states (i.e., Alaska, Colorado, Louisiana, and Wyoming).

Question 2.

There are currently foreclosure problems in Alaska and Colorado. How are they similar to the Texas problem? How do they differ?

Response:

(a-b) As indicated in the foregoing response, foreclosure problems in the three states are largely a reflection of dependence upon the (now depressed) petroleum industry. Differences between the states are largely a function of degree. Alaska may be suffering more seriously than other states due to a lack of diversification in that state's economy.

Question 3.

What is your response to the following criticism of the way government entities dispose of foreclosed properties?

The principle [sic] objective of government entities in the area of property disposition is to recoup their losses as rapidly as possible. This objective leads to rapid selling of properties at below market prices. Selling at such prices leads to a further cycle of foreclosure.

Response:

The FDIC was created for the purpose of protecting the depositors of insured banks. At the time of a bank failure, insured deposits are paid and a certain number of assets are (may) be acquired by the Corporation. The latter may, or may not, include loans secured by real property, which are subsequently foreclosed. Once property is acquired by the Corporation, it then becomes the FDIC's objective to convert this (usually) non-earning asset to cash at the earliest opportunity for fair market value. In all instances, however, it is the FDIC's intent to obtain the highest price available under existing market conditions. To that end, properties are appraised by qualified and independent third parties and are then aggressively marketed. Such policy, based on the disposal of property at current market prices, should have little impact on foreclosure cycles.

Question 4.

A separate criticism of federal property disposition is that government entities have had no coordinated strategy. What efforts has your agency made to coordinate property disposition activities with those of other federal agencies and federal government-sponsored entities? What types of additional coordination would you recommend? What would be the benefits? What, if any, obstacles -- legislative or otherwise -- prevent or hinder such coordination?

Response:

(a) No formal efforts have been made to coordinate property disposition activities.

(b-c-d) The objectives, policies, and procedures of the various federal agencies are diverse, posing significant problems of coordination. Any efforts to coordinate property disposal policies would require the ability to accurately predict acquisitions thereof. In the case of the FDIC, this would be particularly difficult, since such assets are acquired through bank failures which are themselves unpredictable. In fact, a fully coordinated property disposal policy among the federal agencies could be detrimental. Decisions to sell/not sell would be inherently speculative, and in given circumstances, could have the effect of dictating market prices. In addition, the FDIC frequently acts as receiver on behalf of all the creditors and shareholders of the failed bank, not just the FDIC, and therefore is bound by a fiduciary responsibility to maximize the net present value of cash recoveries.

Question 5.

Under what circumstances might the potential loss on a foreclosed property be so great that it would be more advantageous for the federal government to hold on to that piece of property?

Response:

Such circumstances would be rare, usually confined to those instances where the property is involved in litigation. Any decision to hold property off the market to avoid taking a loss would be inherently speculative and would create an overhang on the market that would depress prices.

Question 6.

How might a public, for-profit entity be helpful in the management and disposition of government-acquired foreclosed properties? What would be the advantages and disadvantages of creating such an entity?

Response:

(a-b) We see no advantage to this concept, which could in fact further disrupt the real estate market. This entity would be a duplication of services already existing in the private sector, and would be in direct competition thereto.

Question 7

The attached New York Times article of April 28, 1987, reports that the Houston Housing Authority has purchased 307 homes repossessed by the FHA to use as low-income apartments. Should this activity be expanded? How could your agency better target the disposition of foreclosed properties to benefit low-and moderate-income home owners or renters?

Response:

(a-b) The FDIC is willing to sell owned property to any buyer, provided such sales are at market determined prices. To this end, we would be willing to provide lists of property held for sale to the Houston Housing Authority, or any other buyer.

Question 8.

To what extent could your agency's response to the Texas experience make it more difficult for low-and moderate-income families to buy homes in the future?

Response:

We see no reason to believe that our actions or policies have had an adverse effect on low-and moderate-income families.

Question 9.

How soon after an agency loan goes into default does the agency receive notice of the default? What actions are taken by the agency upon receipt of such notice? What does the agency do to provide loan servicing and financial counseling to borrowers in default on such loans?

Response:

(a) Inasmuch as these were not agency loans but rather loans the FDIC services as a result of a bank failure, the FDIC becomes aware of a default status virtually on the day it occurs.

(b) Current policy requires the mailing of delinquency notices when a loan falls 30 days past due. This is followed up with written and/or verbal efforts to contact the borrower for the purpose of establishing a "workout" payment plan or some other means of curing default. Failing these efforts, and as a last resort, foreclosure proceedings are initiated.

(c) See 9 (b) above.

Question 10.

What special steps are taken in areas such as Houston where your agency has acquired sizeable inventories of foreclosed properties, with respect to:

(a) loan servicing;
(b) property acquisition; and
(c) property disposition?

Response:

(a) Presumably, this question pertains to the servicing of defaulted loans on which there is some possibility of acquiring property. In this regard, please refer to Question 9.

(b) Property is typically acquired by the FDIC through foreclosure or as part of the inventory of a failed bank. In the Houston area, for the six calendar quarters ending in December, 1987, only 16% of all property was acquired via foreclosure proceedings. Even then, such proceedings are only taken after the failure of attempts to (i) encourage refinancing elsewhere, (ii) restructure the debt, (iii) sell the debt to a third party, or (iv) [where appropriate] compromise the debt at a lower amount.

(c) The FDIC's general guidelines for the disposition of acquired property is dicussed in Question 3. In the Houston area, these efforts also have involved (i) the use of a "task force" of real estate experts to evaluate and plan disposition efforts at two particularly large failed banks, (ii) the initiation of a partial release-for-value program on properties pledged against debts of area builders, (iii) frequent meetings with builders for the purpose of structuring "workout" programs; and (iv) aggressive marketing of acquired properties through the brokerage community.

Question 11.

What has your agency done to educate real estate agents regarding, and to increase their participation in, your property disposition program?

Response:

The FDIC makes extensive use of real estate brokers in its property disposition program. Brokers are routinely provided with lists of owned property and are frequently polled for input on marketing strategies. In the Houston area, broker originated sales accounted for 34% of the dollar amount of all property transferred during the six calendar quarters ending December, 1987, and 32% of the number of such transfers.

Question 12.

What is your agency's policy regarding:
- (a) Interest rate-levels on agency financing offered on foreclosed properties?
- (b) Downpayment requirements on sales of foreclosed properties?
- (c) Use of auctions to sell agency-acquired foreclosed properties?
- (d) Rental of agency-acquired foreclosed properties?
- (e) Retaining a percentage of equity in such properties when they are sold by means of agency financing?

Response:

(a) As a rule, the FDIC attempts to sell acquired properties on a cash only basis. In those relatively few instances where debt instruments are taken in payment of such transfers, these are usually at prevailing market rates for that type of property.

(b) Generally, 25% or more of the sale price.

(c) Auctions are one of several methods employed to dispose of acquired property. Direct sales, sales by broker, and sealed bid sales are the three other primary methods of marketing employed by the FDIC.

In the FDIC's Dallas Region, which includes the Houston area, auction sales are generally limited to properties that have been extensively marketed by other means, without success. During the six calendar quarters ending in December, 1987, only 13% of the dollar volume of properties transferred in the Dallas Region were via auctions.

(d) Property may be rented where it is anticipated that the holding period for acquired property will exceed six months. In making the decision to rent/not rent, particular emphasis is placed on the type of property and/or availability of qualified renters.

(e) The FDIC rarely sells property on an equity-sharing basis.

Question 13.

What steps is your agency taking to prevent or minimize the impact which a "Houston-like"--i.e.-economically-depressed--market, could have on it?

Response:

Inasmuch as the FDIC acquires properties, loans, and other assets as a result of bank failures, the losses to the insurance fund from economically depressed markets are directly related to the number and size of bank failures in these markets. The FDIC seeks to reduce these occurrances by pursuing sound regulatory and supervisory policies. In addition, the FDIC has recently attempted to utilize alternative means of handling failing bank situations. These have included whole bank transactions where buyers purchase the entire loan portfolio and the FDIC covers the loss with cash up front. This approach reduces the FDIC's cash outlay from that needed if it purchases loans at book value and subsequently takes a loss. In addition, the FDIC has entered into several highly publicized transactions with some of the larger banks in Texas that involve significant outlays, but, which are less costly than liquidation alternatives.

Question 14.

When and how often will an agency-acquired foreclosed property be appraised?

Response:

Appraisals are ordered immediately prior to foreclosure, and annually thereafter.

Specific: Please answer the following questions with data for each of the past five years and the current period, and differentiate between the types of foreclosed properties (i.e., percentage of single-family, multi-family, condominium, etc.) that your agency has held.

Question 15.

What has been the price range of these properties? How many foreclosed properties has your agency held in each state (be specific)? What percentage of the total number of foreclosed properties--private and government-owned--in each state, has your agency's portfolio represented?

Response:

The requested information is not readily available. This information would have to be constructed from the records of our 25 active offices, together with the open and closed files of several hundred failed banks. Estimated time for that project would run several months, and involve an extensive allocation of personnel resources. The following information is based on activities in FDIC Regional Offices having responsibility over the "economically depressed areas" previously described. Although based on 1987 activities, this information is believed representative of the preceding five years.

(a) Price ranges on foreclosed properties (1987):

ATLANTA REGION: Alabama, Florida, Kentucky, Louisiana, Mississippi, South Carolina, Virginia, West Virginia

From: $ 1,200 Vacant Land
To: 2,000,000 Commercial Buildings

DALLAS REGION: Arkansas, Oklahoma, Texas

From: $ 5,000 Vacant Land
To: 18,000,000 Commercial Complex

SAN FRANCISCO REGION: Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Wyoming.

From: $ 10,000 Vacant Land
To: 2,000,000 Commercial Buildings

(b) Number of Properties Held (12-31-87):

	One Family	Multi-Family	Condominiums	Commercial	Vacant	TOTAL
ATLANTA REGION:						
Alabama	3	1	0	2	2	8
Florida	20	12	26	7	65	130
Kentucky	4	1	0	2	2	9
Louisiana	65	23	42	31	407	568
Mississippi	4	0	0	0	6	10
S. Carolina	4	0	0	0	4	8
Virginia	0	0	0	1	1	2
W. Virginia	3	2	0	5	5	15
DALLAS REGION:						
Arkansas	1	0	0	0	4	5
Oklahoma	179	23	36	97	187	522
Texas	181	32	46	156	943	1,358
SAN FRANCISCO Region						
Alaska	54	25	142	40	350	611
Arizona	0	0	0	0	0	0
California	12	1	17	5	8	43
Colorado	39	5	54	17	53	168
Hawaii	0	0	0	0	0	0
Idaho	0	1	0	3	1	5
Montana	2	1	0	5	16	24
Nevada	0	0	0	1	1	2
Oregon	12	0	0	5	93	110
Utah	18	2	7	4	23	54
Wyoming	53	23	3	16	28	123

(c) Unknown

Question 16.

What has been the average loss per property?

Response:

Since loss is not defined, it is assumed to be the difference between the loan balance and the sale price of the real estate. The loan asset is extinguished when the property is foreclosed. Hence it would be extremely difficult and time consuming to arrive at loss figures for properties we have foreclosed on. It would be almost impossible in the case of owned real estate, where the failed bank had foreclosed prior to failure.

Question 17.

What has been the average holding time from foreclosure to disposition? What are the various types of costs associated with this holding time?

Response:

(a) Average holding time by Region:

ATLANTA	Eleven months
DALLAS	Ten months
SAN FRANCISCO	Nine months

(b) Holding costs include such fixed expenses as real estate taxes, insurance, utilities, maintenance, and security. Opportunity costs represent lost interest income due to holding these non-earning assets. In addition to the foregoing, marketing costs will eventually be incurred, which include advertising expenses, appraisal fees, brokerage commissions and related closing costs. Assuming a sale occurs after a six-month-marketing effort, a "rule of thumb" estimate places the above costs at 15% of a property's appraised value.

Question 18.

What percentage of the average unpaid principle balance are you able to recover in Texas? In the country as a whole?

Response:

Presumably, "unpaid principle balance" would mean the carrying value of acquired property on the FDIC's books. That figure, however, is often based on inflated carrying values of the failed bank, or the FDIC's bid price at foreclosure auctions which may have been held many months earlier. Rather, the FDIC regards the recovery potential of an individual property as being the appraised value thereof. In Texas, our sales of acquired real estate have averaged 85% of appraised value. In those areas of the country where real estate values have been rising (California and the Northwest), we have received 102% of appraised value.

Question 19.

Describe the various processes your agency has used to dispose of property. What is currently the most favored method?

Response:

(a) As previously indicated, the FDIC's most commonly used disposal methods are real estate brokers, auctions, sealed bid sales, and direct sale. These methods are tailored to the particular properties offered for sale, as well as the characteristics of the environment in which they are to be sold.

(b) For the six calendar quarters ending in December, 1987, auction sales accounted for 32% of the number of properties transferred in the Dallas Region. During the same period, broker sales and direct sales accounted for 29% and 24%, respectively, of this number. In terms of the dollar amount of such sales, broker sales represented 37% of the total, direct sales were 22%, and auctions were only 13%.

(c) There is no "favored" method. The goal of the FDIC is to maximize return, after considering the specific situation, holding costs, etc.

Question 20.

To what extent are properties repaired prior to being sold? What is the average amount per property spent on such repairs?

Response:

(a) Properties are usually sold "as is." Repairs are usually limited to those needed to eliminate hazards. In a very few instances, primarily involving commercial properties, cosmetic repairs may be made if these are believed necessary to maximize recovery.

(b) Negligible.

Question 21.

What sales incentives are offered? What finance mechanisms are used? What financing packages are offered?

Response:

(a) Sales incentives vary, dependent on the property and prevailing market conditions. Brokers are offered competitive commission rates and the FDIC may or may not absorb some closing costs.

(b-c) Financing is not widely used. However, when used, this is a negotiable item, based on market considerations.

Question 22.

What do the buyer profiles look like? What protections are there against speculative purchasing?

Response:

(a) The FDIC maintains an automated list of parties who have expressed an interest in acquired property, but does not attempt to "profile" the ultimate buyers.

(b) Buyers are required to post significant downpayments, and are required to close acquisitions promptly. Since the FDIC bases its sale price on appraised value, the intent of the purchaser, i.e., speculative or otherwise, is not a primary concern. In addition, the FDIC's Office of Corporate Audits surveys resales of purchased properties to see if buyers are turning them over at a price in excess of the market's appreciation rate. To date, no evidence of this type of speculation has surfaced.

Federal Home Loan Bank Board

1700 G Street, N.W.
Washington, D.C. 20552

Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation
Federal Savings and Loan Insurance Corporation

29 APR 1988

Honorable Alan Cranston
Chairman
Subcommittee on Housing
and Urban Affairs
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

Dear Senator Cranston:

I have received your letter of March 11, 1988, inquiring about the Federal Home Loan Bank Board's foreclosed property management and disposition program. I understand that this letter is a follow-up to a meeting held January 25, 1988 between agency and congressional committee staff on this subject.

I am enclosing a report, which was recently transmitted to the Committee on Banking, Finance, and Urban Affairs of the House of Representative and the Committee on Banking, Housing, and Urban Affairs of the Senate, that addresses questions raised in your letter to the extent they apply to the FSLIC. This report was required by Section 411 of the Competitive Equality Banking Act of 1987, and discusses the management and disposition guidelines for FSLIC-controlled real estate assets. It also contains brief descriptions of other federal agencies' policies and programs, and general information on the Texas foreclosed real estate market.

In closing, please be reminded that the FSLIC controls real estate, as a fiduciary, on behalf of creditors of failed thrifts, and not the federal government. This real estate is, in essence, owned by the failed institutions' creditors. Accordingly, the FSLIC's policies and practices are directed to the fulfillment of its fiduciary responsibilities to these creditors.

Thank you for your interest in this matter.

Very truly yours,

Karl Hoyle

Karl T. Hoyle
Executive Director
for Public Affairs

Enclosure

FEDERAL HOME LOAN BANK BOARD

REPORT UNDER SECTION 415 OF THE COMPETITIVE EQUALITY BANKING ACT OF 1987

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I. MANPOWER AND TALENT

The Bank Board faces many obstacles in recruiting and retaining the top talent needed in carrying out its regulatory responsibilities with respect to the national thrift industry. We are unable to compete directly with the lucrative compensation and benefit packages available in the private sector, especially at law firms, consulting organizations, trade associations, and many thrift institutions themselves. We are faced with an additional impediment, moreover, because our sister regulatory agencies (Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency) have exemptions from the government-wide pay and benefit restrictions that bind the Bank Board. Hence, we compete in the same marketplace with both the private sector and allied financial regulatory agencies for the same kinds of skilled workers.

To offset these disadvantages, we have mounted an aggressive recruiting campaign designed to make the Bank Board a more attractive place of employment. We market it as an employment opportunity that offers some of the most intense and exciting challenges available in the financial marketplace today. We have developed a recruiting brochure and other materials that are on par with those of the top private firms. We participate in nationwide career conferences, advertise in leading financial newspapers, and are in contact with professional organizations whose members have the kinds of skills we need. We have also launched a comprehensive clerical and secretarial recruiting drive in the local area to offset the inordinate turnover of talented government clerks and secretaries that plague most Federal agencies.

In addition, we have developed a variety of enticements that go beyond the basic paycheck in order to make the Bank Board a more attractive employment opportunity. Among these are a day care facility, a credit union, and a mini-gym with a variety of exercise programs, all available on site. An employee counseling services program, a full service health unit, and carpool parking services are also available within the building. We offer a flextime program, extensive technical, managerial, and state-of-the-art training, as well as a generous awards program to entice employees to stay with the organization.

Although there are many talented candidates who choose not to pursue an opportunity at the Bank Board, and others who move on to more lucrative opportunities, we believe that we have nevertheless attracted a strong cadre of skilled and dedicated employees. Attorneys, economists, and a variety of financial analyst employees comprise the majority of our workforce, along with a complement of administrative support staff. Although our turnover rate has been high in recent years, we believe that our investment in some of these other efforts has enabled us to attract a continuing stream of talented individuals to staff the important jobs we have.

Existing actual manpower as of December 31, 1987:

Bank Board	461
FSLIC	552
ORPOS	106
District Banks (examination and supervisory)	2,045
FADA	388

Projection of total manpower for 1988 (includes existing manpower):

	Projected Maximum Staffing	Budgeted Cost
Bank Board (fiscal yr)	463	$ 22,701,000
FSLIC (fiscal yr)	789	35,947,000
ORPOS	175	9,666,500
District Banks (examination and supervisory)	2,198	129,266,000
FADA	388*	25,600,000*

*The Bank Board anticipates a decrease in FADA staff in 1988. It is expected that the new President, who began March 1, 1988, will address the revised staffing issue as an early priority.

II. GOALS AND OBJECTIVES

This section of the report begins with an overview of the goals, objectives, and management strategies for the Bank Board and its related entities. Following the overview are goals, objectives, and management strategies prepared for the FSLIC, FADA, ORPOS and the District Banks. These include short term and long term priorities.

GOALS AND OBJECTIVES OVERVIEW FEDERAL HOME LOAN BANK BOARD AND RELATED ENTITIES

General

- Maintain confidence in the Federal Home Loan Bank System.
- Attract and train management and other personnel competent to meet Bank Board needs.
- Review proposed legislation and advise Congress of impact on System.
- Improve Management Information Systems.
- Enhance value of Thrift Charter.
- Encourage investment of new, private capital in the thrift industry.
- Improve third party contracting procedures to lower costs.

Regulatory/Supervisory

- Establish and implement national examination and supervisory policies and standards.
- Ensure that examination and supervisory functions are performed appropriately, effectively and in accordance with national policies and standards.
- Enhance regulatory capability to detect and monitor areas of systemic risk to the thrift industry.
- Improve early identification of problem cases and provide sound input and supervisory advice in the FSLIC case resolution process.
- Prepare plan for zero-based review of regulations.
- Streamline applications processing.
  - o Effectively implement guidelines.
  - o Eliminate unnecessary applications.
  - o Decrease information requirements.
  - o Decrease use of conditions.
  - o Exercise quality control of District Banks' applications processing.

Insurance

- Improve financial credibility of FSLIC.
- Continue to streamline case resolution process.
  - o Expand marketing efforts to increase capital infusion.
  - o Adopt and implement plan for the Southwest.
  - o Develop policy guidelines and tracking procedures for open bank assistance.
  - o Increase information available to potential acquirors.
  - o Revise and improve due diligence packages and methodology.

  - Continue and extend District Bank involvement in case resolution process.
  - Simplify and improve asset management contracts and selling procedures.
- Evaluate and refocus FADA.
- Improve management and disposition of FSLIC receivership assets.
- Increase diversification of and communications with outside asset management contractors.
- Develop and implement strategies to lower cost of funds for troubled institutions.
- Improve cost effectiveness of litigation.
  - Complete evaluation of use of fee counsel.

FSLIC GOALS AND OBJECTIVES

CASE RESOLUTION

- Expand marketing of FSLIC cases to non-traditional acquirors.
- Streamline negotiation and bid process.
- Explore new FSLIC financial assistance instruments and structures.
- Publish an "Investor's Guide" for potential acquirors of FSLIC cases.
- Implement Southwest plan.
- Develop open-bank assistance criteria.
- Evaluate options such as brokered certificate of deposit program to lower the cost-of-funds to problem thrifts.

ASSET MANAGEMENT AND DISPOSITION

- Improve procedures for asset management and disposition.
  - Provide a standard, short-form business plan format to all asset management contractors.
  - Provide appropriate incentives to dispose of assets expeditiously and at fair prices.
  - Develop nationwide performance standards for professional services.
  - Create new sale structures and asset pooling arrangements.
- Further develop and improve asset disposition strategies and procedures.
  - Develop methods to use noncash assets from receiverships.
  - Use guarantees or warranties to back the sale of asset portfolios.
  - Solicit interest in selected specialty assets.
  - Develop and market bulk sale of assets.

  - Expand marketing of loan portfolios.

- Enhance the management and cost effectiveness of the receivership program.
  - Develop collateralized and structured financing for receiverships.
  - Develop policy statement for receivership cost of funds.

- Continue to assess the need for FADA.
  - Evaluate FADA's performance of asset management and disposition.
  - Compare capability, cost, and structure with market alternatives.
  - Clearly define FADA as a staff support organization for the FSLIC.

DEALING WITH THE PUBLIC AND CONTRACTORS

- Improve responsiveness in the insurance payment and receivership creditor claims process.
  - Expand insurance of accounts information to the industry and the public.
  - Improve processing procedures for complex deposit insurance claims.
  - Simplify and update the regulations governing depositor insurance coverage and receivership operations.

- Improve communications with the public and the industry.
  - Establish an "Ombudsman" group within the FSLIC to serve as a link with the thrift industry and others to improve FSLIC responsiveness.
  - Improve timeliness of audits and payments, and requests for legal assistance of acquirers.
  - Improve minority/women participation in contracting programs.

FADA GOALS AND OBJECTIVES

- Increase the effectiveness of FADA.
  - Streamline FADA operations.
  - Reduce costs of operations.
  - Review the delivery of FADA technical services.
- Improve current procedures for contracting with third parties.
  - Streamline procedures to ensure that qualified vendors have access to the system.
  - Revise the FADA contractor data base to better locate qualified contractors to manage assets.
  - Refine the standards for engaging contractors.
  - Improve the contractor selection process.
  - Enhance quality control by sharing evaluations of contractor performance.
  - Develop and implement a minority outreach program.
- Establish better communications.
  - Educate the industry on the type of work available to contractors.
  - Better convey information to prospective purchasers of assets.
- Enhance the current marketing of assets.
  - Employ FSLIC national marketing program.
  - Establish a toll free number to assist prospective purchasers.
  - Continue to provide prospective purchasers with monthly property lists.
  - Enhance the use of FADA's national purchaser database
  - Enhance the role of FADA regional marketing coordinators.
- Enhance the delivery of real estate technical services.

  - Enhance use of the appraiser database.
  - Review appraisals for accuracy and consistency nationwide.
  - Better use FADA's participation asset expertise.
- Streamline and improve the asset management process.
  - Implement a standard, short-form business plan.
  - Streamline appraisal requirements.
  - Simplify contracts and provide incentive for disposition of assets and management fees for zero-valued assets.

ORPOS GOALS AND OBJECTIVES

- Promote effective and efficient thrift supervision.
  - o Undertake zero-based review of regulations.
  - o Provide accounting expertise to the Bank Board, the Bank system, and the industry.
  - o Develop, implement, and maintain examination and supervisory procedures and programs.
  - o Ensure nationwide consistency of examination and supervisory procedures.
  - o Review, update and implement a new series of bulletins and circulars.
  - o Implement CEBA regulations.
  - o Develop programs and policies to monitor and supervise thrift affiliates.
  - o Develop national fraud/insider abuse program.
  - o Establish national compliance program.
  - o Assess adequacy and appropriateness of ORPOS and district policies and procedures.
- Oversee district operations.
  - o Review district strategic plans and 1988 objectives.
  - o Monitor district examination and supervisory effectiveness.
  - o Assess quality and adequacy of district staff and resources.
- Propose and help implement solutions to insolvent and weak thrifts.
  - o Devise programs and strategies to deal with problem thrifts.
  - o Analyze sources of new capital.
  - o Identify measures to improve earnings and reduce costs.
  - o Develop comprehensive strategies for each institution in the Management Consignment Program and for significant institutions.

- Identify systemic risks and ensure sound supervisory action.
  - o Standardize early warning models.
  - o Prepare semiannual report on condition of industry.
  - o Develop program of monitoring and analyzing new capital markets instruments.
  - o Develop coordinated process for identifying systemic risk.
  - o Monitor and establish strategies for supervision of significant institutions.
- Improve applications processing.
  - o Continue process for delegation of certain applications to the District Banks.
  - o Lead study of existing system-wide application process to identify and eliminate unnecessary applications.
  - o Act in a timely manner on applications.
- Improve communications.
  - o Continue to improve communications with the thrift industry and with directors and managers of individual thrifts.
  - o Effectively utilize committees and reports of industry trade groups.
  - o Improve communications with the general public to increase understanding and support for Bank Board policies and actions.

DISTRICT BANKS GOALS AND OBJECTIVES

- Develop a management strategy which will foster a safe and sound thrift industry.
  - o Develop a business plan prior to the beginning of each calendar year.
  - o Senior agency staff review of all institutions to identify existing, probable and possible problem institutions.
  - o Develop procedures for dealing with problem institutions.
  - o Schedule problem institutions for special monitoring where appropriate.
- Identify and deal with probable or real problems at thrift institutions.
  - o Use available resources to determine unsafe or unsound practices.
  - o Use Management Information System to provide information on thrift operations.
  - o Examine the following areas of operations: 1) growth; 2) profitability; 3) lending balances and activity; 4) balance sheet depth; and 5) financial instruments (cash, market, futures and options).
  - o Monitor changes in significant areas of operation for possible adverse effect on a particular thrift institution.
  - o Determine proper response to specific changes in the above categories.
  - o Emphasize early identification of possible problems and prompt follow-up.
- Improve applications processing.
  - o Implement a nationwide sharing of information within the Bank System.
  - o Act in a timely matter on applications.
  - o Continue process for delegation of certain applications to the District Banks.

III. SUMMARY OF OPERATIONS

Included in this section are narrative summaries of operations and income statements for the Bank Board, FSLIC (consolidated which includes FADA), FADA, ORPOS, and the District Banks.

BANK BOARD SUMMARY OF OPERATIONS

A successful start to recapitalization of the thrift insurance fund to assist the resolution of troubled savings and loan institutions topped Bank Board accomplishments in 1987.

The first bond sales under the $10.825 billion recapitalization bill added $1.2 billion to the FSLIC, enabling the Bank Board to deal with troubled thrifts and take other steps to strengthen the thrift industry.

In addition to the bond sales, the Bank Board last year:
- Resolved 48 failing-thrift cases, 20 of them following the recapitalization of FSLIC. Several incorporated innovative solutions underscoring the Bank Board's willingness to use nontraditional ways to tackle troubled-thrift cases.
- Enacted seven regulations mandated under the Competitive Equality Banking Act of 1987 (CEBA), which authorized FSLIC recap, including one requiring thrifts to follow generally accepted accounting principles in filing financial statements.
- Reorganized key operating divisions, including FSLIC, to streamline and strengthen the Bank Board's supervisory responsibilities.
- Ordered a study of the Texas thrift industry leading to a strategy for recovery of that area's hard-hit thrifts and the reduction in the cost of funds for thrifts nationwide.

Recapitalization

President Reagan signed CEBA into law August 10 establishing the Financing Corporation (FICO) and authorizing the sale of $10.825 billion to shore up FSLIC. FICO was formally chartered August 28 and set for business with the appointment of its three board members: Charles L. Thiemann, President of the Federal Home Loan Bank of Cincinnati, as Chairman; Richard F. Syron, President of the Federal Home Loan Bank of Boston as Vice Chairman and Austin C. Dowling, Director of the Federal Home Loan Bank System's Office of Finance as President.

FICO sold $500 million and $600 million respectively in separate public bond offerings in September and November and $100 million in a private placement in October.

Case Resolution

The November 19 liquidation of Vernon Savings and Loan Association, Vernon, Texas, at a potential FSLIC cost of $1.3 billion, illustrated the resolve to handle cases of all sizes and marked a major step in tackling thrift insolvency in Texas, which in December counted 104 of the nation's 340 insolvent thrift institutions.

A harbinger of the willingness to employ new ideas to resolve troubled-thrift cases was the December 30 assisted acquisition of four troubled Louisiana Savings and Loan institutions by Pelican Homestead and Savings Association, Metairie, LA, which included the innovative provision for the Bank Board to share in profits and, upon conversion to a stock company, ownership, of Pelican.

In all, 48 failing-thrift cases were resolved last year compared to 49 in 1986. Twenty were resolved after August 10, representing four more than Chairman Wall's own post-recapitalization goal of 16 by the year's end.

Of the 48, 31 were resolved through 26 FSLIC-assisted mergers or acquisitions in which the fund provided financial compensation to effect the purchase of a troubled thrift. Seventeen were resolved through insurance settlements in which insured deposits were either transferred to another existing or new institution or depositors were paid their insured deposit funds directly. Innovation highlighted other FSLIC actions as the agency's insurance division developed alternative ways to dispose of properties in its receivership portfolio. A Marketing Center was opened in Dallas and an auction held in southern California reflected FSLIC's willingness to adopt private-sector practices, but within its fiduciary responsibility of obtaining marketplace prices for its properties.

Southwest Plan/Texas

The year-end saw finishing touches being placed on a comprehensive report on tackling Southwest thrift problems. Selection of consultant Ellis T. Gravette to review proposed options and do the analysis in conjunction with the Dallas District Bank and appointment of a 12-member advisory board were steps in developing the program to restore the viability of the region's savings and loan institutions and strengthen the nation's industry as a whole. Removal of insolvent and poorly managed thrifts is a top Bank Board priority as a way to reduce the cost of funds for thrifts nationwide.

Competitive Equality Banking Act

The regulations mandated by Congress under the 1987 law were enacted well within their prescribed timetables: Qualified Thrift Lender Requirements; Uniform Accounting Standards; Classification of Assets; Capital Forbearance; Regulatory Capital Requirements; Appraisal Policies and Practices; and Troubled Debt Restructuring. The regulations strengthened the Bank Board's ability to supervise the industry. The appraisal and loan classification rules were examples of the Bank Board's intent to provide discretion to competent managers in the daily operation of their institutions.

Reorganization

Reorganization of the FSLIC and the ORPOS were among the restructurings within the Bank Board to modernize its operations and enhance its ability to carry out its supervisory and management responsibilities. Three major FSLIC units were formed by consolidating its six functioning divisions, while ORPOS' operations were streamlined to enhance timely consideration of supervisory activities.

Both were part of an overall reorganization of Bank Board activities through an Executive Committee under the leadership of James E. Boland, Jr..

Additionally, a Regulatory Review Task Force was charged with coordinating and tracking the agency's regulatory process. A key objective is prompt consideration of proposed regulations, again enhancing the Bank Board's supervisory function.

Streamlined operations were also reflected under new Application Guidelines, issued in final form October 9, providing thrift managers prompt regulatory review of proposed plans. The year's end saw completed action of 393 of the 484 applications in the agency pipeline as of October 9. Of the 785 applications received since that date, only 316 remained pending on December 31.

Federal Home Loan Bank Board
Statement Of Income And Expenses And Retained Earnings
For The Year Ended December 31, 1987
(in thousands)

Income	
Assessments:	
Federal Home Loan Banks	$ 8,072
Federal Savings and Loan Insurance Corporation	25,603
Rent and miscellaneous other	1,487
Total Income	35,162
Expenses	
Personnel compensation	17,752
Personnel benefits (Note 1)	2,830
Travel and transportation	901
Rent, communication, and utilities	3,058
Depreciation:	
Furniture, fixtures, and equipment	5,874
Building	940
Building maintenance and other services	7,047
Total expenses	38,402
Net income	(3,240)
Retained earnings at beginning of year (Note 2)	12,857
Retained earnings at end of year (Note 2)	$ 9,617

The accompanying notes are an integral part of this financial statement.

Federal Home Loan Bank Board
Notes To Statement of Income, Expenses, and Retained Earnings
December 31, 1987

1. Retirement Plan

Approximately 69% of the Bank Board's employees are covered by the Civil Service Retirement System (CSRS), which is currently two-tiered. For employees hired prior to January 1, 1984, the Bank Board withholds approximately 7 percent of their gross earnings. This contribution is then matched by the Bank Board and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, with more than five years of service (not necessarily continuous), the Bank Board withholds, in addition to Social Security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution. At the point such earnings exceed the FICA maximum wages of $43,800 for 1987, employees covered under this tier of CSRS are required to have 7 percent of their earnings withheld while the agency expense remains a 7 percent contribution. The second employee group will receive retirement benefits from the CSRS along with the Social Security System, to which they concurrently contribute. Beginning in January 1987, all employees hired since January 1, 1984 either as new employees or as having less than 5 years of accumulated service are included in the new Federal Employee Retirement System (FERS). For such employees the Bank Board withholds 1.3 percent of their gross earnings and matches those withholdings with a 14.8 percent contribution (through 10/10/87) and a 12.5 percent contribution effective 10/11/87. This group of employees will receive benefits from the FERS as well as the Social Security System to which they concurrently contribute. The retirement expenses incurred for all plans during calendar years 1987 and 1986 were $1,381,947 and $1,025,131 respectively.

Although the Bank Board funds a portion of pension benefits under both of the above Retirement Systems relating to its employees and makes the necessary payroll withholdings from them, the Bank Board does not account for the assets of either retirement plan nor does it have actuarial data with respect to accumulated plan benefits of the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for both Retirement Systems and are not allocated to the individual employers. Except for one retired employee who has health insurance through the Bank Board's own health plan, the Office of Personnel Management accounts for

- all health and life insurance programs for retired federal employees.

2. Capital:

	(in thousands)
	1987
Retained Earnings at Beginning of Year	$ 12,857
Net Income (Loss)	(3,240)
Retained Earnings at End of Year	9,617
Paid-in-Capital at End of Year	41,030
Total Capital at End of Year	$ 50,647

FSLIC SUMMARY OF OPERATIONS

During the twelve months ended December 31, 1987, the FSLIC recommended and the Bank Board approved resolutions of 48 troubled institutions. Thirty-one of these institutions, having total liabilities of $8.7 billion, were resolved through FSLIC assisted sales/mergers. The total estimated present value cost of the assistance provided by FSLIC in these sales is $1.4 billion, saving the FSLIC an estimated $382 million compared to the cost which would have been incurred if the institutions had been liquidated. Seventeen institutions, having total liabilities of $4.3 billion and a total estimated cost of liquidation of $2.4 billion, were placed into liquidating receiverships.

Marketing of troubled thrift institutions requiring FSLIC financial assistance was necessarily curtailed in the first half of 1987 pending recapitalization of the insurance fund. However, with FSLIC recapitalization, a stepped-up marketing program resumed in the second half of 1987. In total, the FSLIC in cooperation with the District Banks marketed 53 institutions with total liabilities in excess of $17 billion.

During calendar year 1987, the FSLIC performed financial analyses on 204 individual problem savings and loan associations. There are three major types of financial analyses performed: (a) liquidation cost, (b) bid cost, and (c) viability.

Liquidation cost analysis estimates the present value cost of managing and liquidating an insolvent association over time. According to statute, liquidation must take place if it is determined to be the least expensive alternative available to the FSLIC. Liquidation cost analysis is performed using a savings and loan-specific computer financial model. There were 187 liquidation analyses completed in 1987.

Bid cost analysis is the estimate of the cost of alternative proposals for the association. These alternative proposals are generally mergers with, or acquisitions by, financially stronger savings and loans, banks, or even individual investors. Other alternatives examined might be reorganization of the association with the addition of outside capital. There were 110 bid cost estimates of all types completed in 1987.

Viability analysis is the projection of the long-term capital adequacy and profitability of the association under its new proposed form. The determination of long term viability of the FSLIC-assisted association is a statutory requirement. As in the performance of liquidation analysis, viability analysis requires the use of an institution-specific computer financial model. There were 86 viability analyses performed in 1987.

During the twelve-month period ended December 31, 1987, twenty-four associations were added to the Management Consignment Program ("MCP"). During this same period, eleven associations left the MCP through the following FSLIC actions:

FSLIC Assisted Mergers	2
FSLIC Assisted Acquisitions	4
FSLIC Liquidation	4
FSLIC Asset-Backed Transfer	1
TOTAL	11

On December 31, 1987, there were fifty-eight associations in the MCP which had net assets totaling approximately $21 billion.

In mid-1987, the Bank Board initiated a study to identify the strengths and weaknesses of this program. In part, due to findings and recommendations of the study, several changes have been made to enhance the administration of the program. Perhaps the most significant was the creation in November, 1987 of a separate MCP Division under the direct supervision of the FSLIC Deputy Executive Director of Operations. The MCP Division will be responsible for developing policies and procedures designed to provide guidance to administer the program more effectively. Prior to the establishment of this division, portions of the program were administered across several FSLIC staff elements. Significant changes since the establishment of the Division include development of procedures for the delegation of FSLIC authority to the District Banks in order to expedite the approval and indemnification of officers and directors of MCP's and the establishment of requirements for primary management contracts and asset management contracts to be approved by the FSLIC to ensure sufficient capacity to perform the management functions.

In November, 1987, Chairman Wall established an Executive MCP Committee comprised of the senior officials of the FSLIC, the Board's Office of General Counsel, ORPOS, and the Chairman's Office to assure that the national goals for the program are being developed, disseminated, and revised for the overall effectiveness and improvement of the program.

The FSLIC continues to monitor the operations of the MCP associations to: define emerging issues and problems; assist in arbitration of contract disputes; and process payments pursuant to indemnification agreements.

During 1987, 17 institutions with combined savings deposits of $3 billion required the appointment of a receiver. Of these transactions:

- 2 involved cash payouts for about 15,500 insured accounts totaling $242 million,
- 13 were transfers of about 200,000 insured accounts totaling $1.6 billion,
- 1 was a direct sale of an asset-backed transfer with 14,000 insured accounts totaling $91 million, and
- 1 involved an asset-backed transfer of 35,000 insured accounts totaling $1.4 billion.

As of December 31, 1987, the FSLIC had processed 99% of all accounts representing insurance claims from all active cases. The other one percent was held by depositors who had more than $100,000 on deposit at a failed institution, and who were providing to the FSLIC documentation necessary to justify coverage in excess of $100,000.

In 1987, the FSLIC with assistance from the Bank Board's Office of General Counsel, completed policy initiatives that had been started in the past. For example, regulatory revisions that deleted the signature requirement for separate insurance coverage of joint accounts were circulated for final review. The FSLIC and the Securities Industry Association exchanged letters of agreement to streamline documentation requirements for accounts held by brokers and other agents, and which should expedite processing of future insurance claims.

In 1987, the FSLIC also stepped up its public-confidence efforts, conducting 26 seminars on the insurance system to over 3,500 consumers and industry personnel nationwide.

The FSLIC administered 129 financial assistance agreements as of December 31, 1986. During 1987, the FSLIC added 24 new assistance agreements and terminated 19, for a total of 134 cases as of December 31, 1987. Disbursements in 1987 under these agreements aggregated in $1.1 billion. In addition, the FSLIC disbursed an additional $865 million in interest and principal payments on notes used in FSLIC's insurance settlement actions.

As of December 31, 1986, the FSLIC administered 80 guaranteed advance contracts with the District Banks, aggregating $3.6 billion. In December, 1987, the Federal Home Loan Bank of Dallas repurchased $623.2 million of guaranteed advances that were originally purchased by the FSLIC. The FSLIC entered into 28 new guarantee advance contracts, terminated 22, and amended 4 contracts, for a total at December 31, 1987, of $2.3 billion in guarantees outstanding.

At December 31, 1987, the FSLIC held $421.7 million in preferred stock in 6 healthy institutions, and received $19.1

million in dividend payments from those institutions in 1987. The FSLIC had originally purchased Income Capital Certificates ("ICCs") from 4 of the 6 institutions as part of its default prevention and assistance actions, and converted the certificated stock to (1) facilitate recapitalization by mutual to stock conversions, and (2) provide the FSLIC with an equity security that can, at the FSLIC's option, be sold to third parties. As of December 31, 1987, the FSLIC still held $342.2 million in ICCs from healthy institutions that acquired failing institutions and received dividends in the form of annual income payments of $41.2 million from those institutions.

During 1987, a tax section was established to ensure that tax benefits due the FSLIC under assistance agreements, the FSLIC receiverships, and FSLIC owned assets are maximized and collected. This section also assists in monitoring audits contracted on behalf of the FSLIC by the Bank Board's Office of Inspector General for the FSLIC assistance cases and MCPs.

In 1987, the FSLIC placed 17 failed institutions into liquidating receiverships which brought approximately $2.8 billion in new assets under its management. Proceeds from the sale of assets and loan repayments in this period totaled $1.4 billion. During the last twelve months the Corporation initiated several innovative ways to dispose of such assets. To facilitate the sale of the receivers' performing loan portfolios, we have begun working with the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association to securitize these asset portfolios. To market their real estate owned (REO) portfolio, a marketing and display center opened in Dallas on September 14, and a National Marketing Committee has been established to evaluate marketing strategies on a regional and nationwide basis. In addition, a real estate database system has been created to track all receivership REO from which a monthly list of available properties is created and distributed to all interested parties.

Automating the information flow between receiverships and the FSLIC has been a high priority this year. Early in 1987 the FSLIC began development of an Asset Management System (AMS) to store, track, and retrieve demographic and financial information on assets (values, sales, loan repayments, expenses and income). Development of the initial programming and database phase was completed during the third quarter of 1987; conversion of receivership records to the system began in the fourth quarter. When fully operational, the system will provide immediate access to financial, demographic and performance information of receivership and corporate assets nationwide. Programming of a standardized administrative claims tracking database system was also completed in the third quarter of 1987 with installation in the five FSLIC regional offices completed during the fourth quarter.

The Bank Board approved $193 million in liquidating dividends to creditors of failed institutions in 1987. The FSLIC, the largest unsecured creditor, received $190 million of this distribution. To insure timely distribution of these dividends, we have begun a major effort to track projected liquidating dividends and remove unnecessary legal barriers that hinder early distribution efforts.

Standard operating policies and procedures for receiverships have been updated during 1987. Both an operations manual and accounting manual have undergone significant revisions and will be distributed to regional offices in the upcoming quarter. Management review teams base their evaluation of receiverships on the policies and procedures outlined in these manuals.

In addition to case resolution efforts, the FSLIC (1) promulgated a case definition to clarify the point at which Significant Supervisory Cases, monitored by the District Banks, are assigned to FSLIC; (2) developed a financially based case resolution prioritization system; (3) prepared several issues papers with recommendations to facilitate the case resolution process; (4) revised its investor clearance procedures to provide for more timely processing of acquirors; (5) implemented new procedures to facilitate more timely notification to acquirors submitting proposals; and, (6) began to develop a stronger marketing package for soliciting interest in acquiring problem institutions. The FSLIC staff also worked with a committee of District Bank officials and jointly submitted recommendations, subsequently adopted by the Bank Board, to assign certain problem case resolution responsibilities to the District Banks. The committee commenced efforts to standardize national procedures and training attendant to the assignments.

FSLIC INCOME STATEMENT

Not included - see cover letter

FADA SUMMARY OF OPERATIONS

FADA's mission is to assist in strengthening the financial health of the FSLIC and the savings and loan industry by using private sector management and marketing techniques to manage problem loans and properties at the lowest cost consistent with sound operations and to resolve these problems expeditiously while obtaining the best possible returns.

In the two years since FADA was chartered and in the 18 months since FADA's first asset management assignment, the FSLIC, has utilized the FADA to manage and sell the most complex loans and property of failed and supervised savings and loan associations.

Seventy percent of the assets managed by the FADA are loans. FADA's approach to complex loan problems is straightforward: negotiate first -- and litigate only as an alternative. FADA has attempted to devise flexible, creative solutions. The FADA does not take title to any troubled real estate but rather acts as a manager and professional real estate consultant to the FSLIC.

In late 1987, FADA revisited its mission with an eye toward streamlining operations, reducing costs wherever possible and enhancing delivery of technical services to the FSLIC.

FADA manages loans and properties for the FSLIC and supervises institutions through five regional offices in Atlanta, Dallas, Denver, Los Angeles, and San Francisco. An administrative office in San Francisco provides functional support for the regional offices.

Nationwide, few, if any, firms contract for more appraisal services than FADA. Thus, the FADA administrative office negotiates lower fees with the most capable and reputable appraisers in the business.

Likewise in the areas of property insurance, nationwide marketing, consultant services, and participation loan management, the FADA administrative office supplies economies of scale that add value beyond that of a single regional office or contractor.

FADA laid the groundwork in 1987 for enhanced use of FADA systems, economies, and expertise in the appraisal and participation loan areas throughout the Federal Home Loan Bank System.

FADA has managed loans and properties valued at $4.6 billion for the FSLIC and supervised institutions since its first assignment in July of 1986. Over $2.7 billion of those assets -- or 60 percent -- were assigned to FADA during 1987.

Since seventy percent of the properties FADA manages are loans, FADA focuses on problem loan workouts so that cash can be returned to the FSLIC as soon as possible. FADA has restructured problem loans valued at nearly $275 million.

In managing real estate for the FSLIC or a supervised institution, FADA aggressively markets avaliable properties. FADA has received net proceeds of $308 million from sales of real estate and loan payoffs.

FADA informs the buying public of available real estate by periodically mailing a list of such properties to all interested contacts.

FADA maintains a nationwide database to track and respond to over 2,800 prospective purchasers who have expressed an interest in acquiring properties of a specific type, location, and size. In addition, FADA has established a toll free number to facilitate the easy flow of information to purchasers.

The FADA database is used to target local, national, and international purchasers for properties as they become available. Plans were made in 1987 to coordinate with the FSLIC in a complimentary marketing effort, including enhanced use of the FADA database.

FADA has devoted a major effort over the past year to sort out participation loans nationwide. Participation loans present a complex loan workout problem, requiring substantial coordination efforts between the various participating lenders, the District Banks, the FSLIC, and FADA.

The FSLIC and the District Banks have recognized FADA's contributions in this area and, as a result FADA provides input on participation policies and procedures and maintains a problem participation loan database for the FSLIC and the Federal Home Loan Bank System. FADA currently tracks approximately 752 projects valued at over $6 billion.

FADA is managing a large number of problem participation loans. Management services are currently provided for about 429 participations involving approximately 400 entities, the majority of whom are FSLIC-insured thrifts. In addition, FADA manages the lead lender position for 220 participations. In 1987, the FADA participation loan group completed a manual that sets forth policies and procedures to deal with the workout and settlement of participation loans. FADA staff have trained and continue to train Federal Home Loan Bank System, the FSLIC, and FADA staffs in participation loan negotiation settlement techniques and alternative solutions to achieving maximum return to the FSLIC.

In the latter part of 1987, meetings between FADA and the FSLIC staffs focused on revision of the FADA asset management contract to be consistent with a newly developed FSLIC standard form agreement which provides incentives for disposition of assets and compensation for managing assets assigned a zero value.

Revised appraisal requirements and a new short-form business plan format, when used throughout the FSLIC system, will significantly reduce the time and cost involved in the management and marketing of properties.

Federal Asset Disposition Association Income Statement
December 31, 1987

REVENUE:	
Asset Management Fees (Notes 1, 2, 3)	$ 19,058,825
Asset Advisory Fees (Note 1)	1,318,665
FSLIC Corporate Fees (Note 1)	264,164
Total Revenue:	20,641,654
OPERATING EXPENSE:	
Personal Expense	19,059,268
Occupancy Expense	1,917,105
Equipment Expense (Note 1)	1,878,056
Telephone Expense	805,480
Travel Expense	1,341,084
Management Consulting	1,587,656
Public Accountants	70,879
Executive Search Fees	644,137
Systems Consulting	599,485
Legal Expenses	453,820
Other Professional Services	323,265
Insurance	255,327
All Other Expenses	1,376,541
Total Operating Expense:	30,312,103
OPERATING INCOME (LOSS):	(9,670,449)
OPERATING INCOME AND EXPENSE:	
Interest and Dividend Income	963,571
Interest Expense	533,112
Gain (Loss) on Investment Securities	(24,522)
Gain (Loss) on Fixed Asset Sales	(10,812)
Other Income	537
Net Other Income and Expense	395,622
NET INCOME (LOSS) BEFORE EFFECT OF CHANGE IN ACCOUNTING ESTIMATES	(9,274,787)
EFFECT OF CHANGE IN ACCOUNTING ESTIMATES Adjustment in Asset Management Fees (Note 3)	(1,948,814)
NET INCOME (LOSS) AFTER EFFECT OF CHANGE	$(11,221,601)

ANNOTATED, ACCRUAL BASIS
(The accompanying Notes are an integral part of this Income Statement)

FADA Notes to the Income Statement

1. Accounting Policies

General

The FADA is a special purpose Federally Chartered Savings and Loan Association, chartered on November 5, 1985 pursuant to Section 406 of the National Housing Act. The FADA is wholly owned by the FSLIC.

The accounting and reporting policies of FADA are in accordance with generally accepted accounting principles.

Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to expense over the estimated useful lives of the assets on a straight line basis.

Fee Income and Reimbursable Expenses

Asset management and advisory fees are accrued and billed monthly. Until Net Realizable Values (NRV) are established, asset management fees are accrued on the basis of estimated value of the assets managed and are subject to retroactive adjustment.

Reimbursable expenses for the management of assets are accrued to accounts receivable as incurred and billed monthly.

Marketable Securities

Marketable securities are recorded as of settlement date.

2. Reimbursable Costs Receivable

FADA has requested $6,180,654 from FSLIC to compensate FADA for legal services, appraisal services, and management fees on assets with no book value for fee billing purposes. During 1987, the FADA has provided legal and appraisal services that are not being provided by other asset management contractors retained by FSLIC.

The $6,180,654 has been shown on the balance sheet as reimbursable costs receivable and as contingent liability. Upon collection of the receivable these statements will be restated to include this amount in the income statement as revenues or as a reduction in expenses. The amount is subject to adjustment pending final approval of FSLIC.

3. Change in Accounting Estimates

In July, FADA adjusted downwards the asset base of six receiverships to reflect estimated NRV in accordance with the amended asset management agreement dated May 27, 1987. Per the management contracts with FSLIC or supervised associations, FADA is required to calculate NRVs per prescribed procedures.

NRVs estimated to date are approximately two-thirds of net takeover values, and significantly below what the FADA estimates will be ultimately recovered. The change in the estimate of the NRVs reduced FADA's fee income by $2.5 million. Annualized, the change will reduce FADA's fee income by approximately $5.7 million. Prior to the amendment, FADA's management fee was based on net takeover values (including reserves). Year to date earnings have been restated.

As additional NRVs are determined for assets under management, adjustments may be necessary to revenues. It is difficult to say whether any future adjustments will have a material impact on these financial statements.

ORPOS SUMMARY OF OPERATIONS

The Office of Regulatory Policy, Oversight and Supervision (ORPOS) was established on September 27, 1986. The principal challenge for ORPOS during 1987 was to redirect its efforts from line approval actions to development of national policy and standards, accompanied by active oversight. ORPOS reorganized to meet this changing role and added additional staff.

The new organization permits a more active role in supervisory policy development, setting standards for the examination and supervisory functions and conducting oversight to ensure those policies and standards are adhered to. The organization also provides the District Banks and industry with MIS support and accounting and regulatory expertise.

The new Policy Department identifies issues of supervisory concern to the Bank System and develops and disseminates regulatory and supervisory policy to address those issues. The Policy staff is currently involved with the Bank System Office of Education (BSOE) and the Regulatory Procedures Division in the development of a national training program for implementation of the CEBA regulations. The creation of a Capital Markets group is underway for the purpose of identifying and evaluating financial market innovations used by the thrift industry. An industry review group will identify and recommend appropriate action on systemic risks.

The Regulatory Procedures and Support Department ensures that consistent and current national standards are applied to the industry through the examination and supervisory process. This division oversees the Chief Accountant's Division and Regulatory Programs and Compliance Programs Divisions.

The Chief Accountant's Division establishes accounting, auditing, and tax precedent; interprets existing policy; assists the Bank Board in establishing policy; and provides accounting assistance in the Bank Board's review and approval of SEC filings.

The Regulatory Programs Division is developing a manual that will establish standard examination and supervisory guidelines throughout the Bank System. In conjunction with BSOE and the Policy Division, the Regulatory Programs Division is developing national training for implementation of the CEBA regulations, which is to be conducted within the District Banks.

The Compliance Programs Division is in the initial stages of identifying key issues and gaining insight into current practices of the industry, consumer groups, Bank System representatives, and other regulatory agencies. With this information national programs will be developed to ensure compliance with consumer affairs legislation, develop national compliance programs, fiduciary activities, and other public interest legislation.

The Supervision Department will assist in the resolution of FSLIC cases to ensure appropriate prospective supervisory activities. They will also become involved in overseeing the supervision of the MCP Program and other significant institutions.

Upon the reorganization of the ORPOS, a group of Bank System analysts was formed to propose regulatory amendments delegating authority on specific applications to the Principal Supervisory Agent. Guidelines and standards have been developed for twenty-five application types which will eventually form the Applications Processing Manual. The goal to streamline the process of analyzing and acting on applications made by the industry for a variety of purposes and practices. Phase II of the delegations project includes finishing all guidelines, streamlining application forms, and developing a new Application Tracking System.

Management Information Systems (MIS), another Division within Supervision will support national MIS for the Bank System. Enhancing existing information systems and devising new applications for use by examiners and supervisors.

With a goal of ensuring appropriate and consistent supervision of the industry by the twelve FHLBank's, the Internal Review Division, reporting directly to the Executive Director of ORPOS, will develop quality control programs to monitor that policies and procedures are followed by the District Banks.

Office of Regulatory Policy, Oversight, and Supervision 1988 Budget

Expense Categories:

Compensation	$7,585,000
Benefits	2,081,500
Travel and Public Relations	405,000
Staff Development	435,000
Recruiting and Relocation	535,000
Rental Expense	1,420,000
Communications Expense	236,000
Office Expense	333,000
Services	755,400
EDP Program Development	1,500,000
Manuals Production	3,300,000
Office Move	4,575,000
Other	10,000
TOTAL OPERATING BUDGET	$23,170,900
Capital Expenditures	823,000
TOTAL BUDGET	$23,993,900

DISTRICT BANKS SUMMARY OF OPERATIONS

The District Banks assist the Bank Board in examining and supervising their member thrifts. Although each District Bank is organized differently, its agency function consists of examination and supervision departments. District Bank System examiners review the books and operations of all FSLIC-insured savings institutions. The supervision department reviews reports on the member institutions prepared by examiners, the institution, and other sources. The supervision department then initiates appropriate supervisory or enforcements actions to correct deficiencies. In addition, it processes consumer complaints, and applications from member institutions. Thus, the agency function serves both member institutions and the general public by reducing risks to the FSLIC and promoting public confidence in the thrift industry.

In late 1986, the Bank Board instituted a computer tracking system to monitor institutions through the use of periodic reports. According to the tracking system during calendar year 1987, the District Banks began 3,126 regular and special examinations of which 2,683 were completed. After the examinations were completed, 2,495 exam reports and 411 interim reports were transmitted to the members. The supervisory agents review of these exams resulted in 2,150 supervisory letters.

The District Banks, in addition to the examination process, monitor their associations through the review of their monthly financial statements, SEC reports, audit reports, and other available financial sources. Through a combination of computer and manually driven programs, over 7,000 "supervision events" (discovery of the occurrence of potential problems with member institutions) were generated in 1987. In response to these events, the District Banks initiated 5,453 "supervisory actions" (such as supervisory letters, board meetings, cease & desist orders, etc.) to solve existing and potential problems.

In early 1987, the District Banks' field examiners began using personal computers to communicate with the District Bank's minicomputers from the examination location and to transmit exam reports to the Bank Board's computer. The system was designed to improve the accuracy and timeliness of examinations and to provide reporting standards and guidelines throughout the system. As the result of adding personal computers and increased staff, training programs were intensified and improved. In addition to the District Banks' individual education programs, the Bank System's Office of Education provided training for 3,705 regulatory personnel. This training involved 22 separate courses for a total 24,273 student days of education in such courses as asset/liability management, examiner training, computer courses, real estate appraisal, and loan workout.

The twelve Districts Banks processed 3,059 applications under delegated authority during 1987. The processing included 552 applications for branches, 32 mergers, 17 holding company acquisitions, 110 service corporations, and 2,348 miscellaneous applications of 49 different types. Insurance of Accounts and De Novo (new member) applications are reviewed by the District Banks, but are forwarded to the Bank Board for action through the Office of District Banks.

Federal Home Loan Bank System
(Examination and Supervisory Functions)
December 31, 1987
(in thousands)

INCOME	
Income from Examination Fees	$ 72,482
Income from Special Examinations	6,138
Industry Annual Assessment	21,007
Income from Service Provided Other Banks by Supervision - Examinations	1,521
TOTAL INCOME	101,148
EXPENSES	
Salaries and Benefits	100,407
Fees and Professional Services	1,799
Travel Expense	17,733
Telephone and Telegraph	1,702
Stationery and Supplies	1,534
Cost of Quarters	6,495
Depreciation - Furniture and Equipment	1,298
Equipment Expense	803
Other Contractual Services	685
Inter-FHLBank Service Charges	138
Other	3,808
TOTAL EXPENSE	136,402
NET	$ (35,254)*

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* The source of income listed above (examination fees, etc.) cover the direct costs of the examination departments in the Federal Home Loan Bank System. These fees are not sufficient to cover the direct expenses connected with the other Agency Division activities, which include the Supervision department, application processing and other professional staffing positions.

IV. SUMMARY OF OPERATIONS - THIRD PARTIES

Included in this section are income statements for all Conservatorships, and Liquidating Receiverships.

Combined FSLIC Conservatorships*
Income and Expense Report
Annual Period Ended December 31, 1987
(000's Omitted)

Total Income:		$ 92,823
Expenses:		
Cost of Funds	254,014	
Operating	141,888	
Non-Operating	31,317	
Total Expenses:		$ 427,273
Net Loss:		$ 334,450

* Consists of nine institutions placed in the Management Consignment Program as FSLIC Conservatorships.

COMBINED STATEMENT OF RESULTS OF OPERATIONS AND DISPOSITIONS
ALL RECEIVERSHIPS (CASH BASIS)
For the Twelve Months Ended December 31, 1987

(UNAUDITED)

	(Dollars in Thousands)
FROM OPERATIONS: (Note A)	
Income	
Interest on Loans	$ 212,289
Investment Income	120,711
Rental Income	44,720
Other Income	51,814
TOTAL INCOME	429,534
Expense	
Interest on Borrowings	60,625
Loan Expenses	27,060
REO Expenses	89,700
Compensation	27,704
Asset Management Fees	24,821
Other Expenses	81,158
TOTAL EXPENSE	311,068
Less Net Expenses Reversed and Capitalized to Assets (Note A)	<64,371>
NET INCOME FROM OPERATIONS	182,837
FROM LIQUIDATIONS: (Note A)	
Gain from Sale of Assets	39,536
Loss from Sale of Assets	<71,268>
NET LOSS FROM SALE OF ASSETS	<31,732>
Negotiated Settlements and Other Recoveries	54,710
NET GAIN ON DISPOSITION OF ASSETS	22,978
Loss on Write-off of Worthless Assets	<74,503>
Subsequent Write-downs to Net Realizable Value	<105,953>
NET LOSS FROM LIQUIDATIONS	<157,478>
NET INCOME FROM OPERATIONS & LIQUIDATIONS	$ 25,359

Notes to Combined Statement of Results of Operations and Dispositions All Liquidating Receiverships (Cash Basis)
December 31, 1987

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The receivership system is composed of defaulted savings and loan associations for which the FSLIC has been appointed receiver. As of December 31, 1987, there were 66 liquidating receiverships in the system. The FHLBB, using its statutory authority, appointed the FSLIC as sole receiver for the insured institutions in default. Each receivership is a separate legal and accounting entity. FSLIC exercises its fiduciary duty as receiver by overseeing the orderly liquidation of the failed associations' assets and the payment of its creditors from the proceeds thereof.

Basis of Accounting

The receiverships' policy is to maintain and report its financial statements on the basis of cash; consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

Valuation Basis

The accompanying Combined Statement of Financial Condition in Liquidation as of December 31, 1987, reflects the accounts of the receiverships utilizing liquidation concepts. Under this method of accounting, assets are recorded at their estimated net realizable values, and recorded liabilities reflect estimated remaining obligations. Net realizable values of substantially all assets are based on the reports of independent appraisers and consultants which are then applied in accordance with FSLIC policies and procedures for establishing the net realizable value of assets in liquidation.

Estimates are made for future costs of operations as well as future costs to settle pending litigation over the estimated remaining life of the receivership. Amounts estimated do not include future interest charges to be incurred on subrogated accounts and uninsured deposits.

Holding costs are expensed as incurred to the Results of Operations and are reversed and added to the assets in the Statement of Financial Condition at the end of the fiscal year (September 30) or upon sale of the related assets.

These reclassifications are reflected in the Expenses Reversed and Capitalized to Assets category in the Results of Operations. These holding costs are provided for in the net realizable value calculations.

V. GUIDELINES

In order to improve management and control of persons hired by the Bank Board and related entities, various guidelines have been developed. The first, Guidelines For Employment Of Outside Accountants, Attorneys, Conservators, and Other Consultants, are broad Bank Board guidelines applicable to the hiring of most third parties. Each of the other guidelines listed below was prepared by the principal user of the respective third party service and therefore is viewed as the best resource to develop the guidelines. All guidelines will be forwarded to other, less frequent users, for consideration in retaining third party services.

Guidelines	Preparer
Guidelines For Use Of Outside Accountants	Office of Inspector General
Guidelines For The Management Of And Control Over Outside Attorneys	Office of General Counsel
Guidelines For Use Of Private Investigators	Office of General Counsel
Guidelines For The Management And Control Of Asset Managers	FSLIC
Guidelines For The Management Of FSLIC Conservators	FSLIC
Guidelines And Controls For The Management Of Appraisers	FSLIC
Guidelines For The Management Of FADA Contractors	FADA

Guidelines For Employment of Outside Accountants, Attorneys, Conservators, and Other Consultants

The selection of outside accountants, attorneys, conservators and other consultants is subject to the existing provisions of the Bank Board's competitive procurement process (Federal Acquisition Regulations) and the Bank Board's budget review and approval process. The guidelines presently in-place insure the need for a given service, the approval of a budget and compliance with competitive procedures.

Additionally, the Bank Board has instituted several new management information system controls described below to insure management review and control of large budget items, including outside legal fees, as well as outside contracting, procurement and expenditures made through the Bank Board accounting system.

- The Legal Information Management System ("LIMS") will provide review by senior staff of the Office of General Counsel of the award of contracts for outside legal services', review of the timeliness and quality of outside legal services', a cost analysis and comparison of legal fees versus anticipated recoveries, and control of fee payments.
- A formalized budget review will evaluate proposed major contracts and procurement. This review, conducted by the Chairman will insure the need for a particular contract or procurement, insure the best possible price is obtained and insure management responsibility for the product and its use.
- The Bank Board Accounting System ("BAS") is an automated refinement of the former financial accounting records system. It insures that real-time controls are placed on obligations and expenditures and are matched against pre-approved budget limits. The system encompasses all financial transactions for Bank Board and FSLIC corporate activities.

The Bank Board intends to conduct a comprehensive review of the entire procurement program of the Bank Board in order to identify opportunities for obtaining improved services at a lower cost from outside accountants, attorneys, conservators, other consultants, and contractors; and to insure compliance with applicable procurement law and regulation.

Guidelines For Use Of Outside Accountants

- BACKGROUND

The Bank Board's Office of Inspector General (OIG) employs independent public accounting firms to perform audits of the Bank Board and related entities, FSLIC, the District Banks and savings institutions which have been placed into receivership or have received FSLIC assistance. Audits are performed in accordance with generally accepted government auditing standards. Types of audits include financial and compliance, economy and efficiency and program results.

- MANAGEMENT AND CONTROL OF OUTSIDE ACCOUNTANTS

The OIG is responsible for employing CPA firms for auditing services. OIG involvement starts at the time an audit is deemed necessary and continues until the final resolution of all audit findings. Through various controls in place throughout the OIG and the Bank Board, the OIG monitors audit work of the outside contractor and ensures that the final product is of good quality, reliable, and is of use to the Bank Board. The following OIG responsibilities help ensure the appropriateness and quality of contracted services:

- gathering background information and preparing a statement of work;
- evaluating proposals and selecting the firm to perform the work;
- monitoring the status of the contract work;
- processing invoices;
- reviewing draft reports;
- reviewing contractor's workpapers; and
- following-up on audit findings.

To insure that the contracted work is pertinent to the audit and that the contractor with the best qualifications is selected to perform the work, the OIG determines the scope of the audit, evaluates the proposals submitted by potential contractors and selects the firm to perform the audit work. In addition, the OIG researches background information relating to the audit, interviews appropriate personnel, outlines the areas to be audited, and prepares a statement of work specifying the audit areas. The OIG, in conjunction with other Bank Board offices, is also responsible for evaluating the proposals submitted to determine which firm best fulfills the needs of the Bank Board. Other offices are involved in this process to ensure fairness to all bidders.

The OIG monitors the status of the contract work in process by performing the following steps:

- requiring the CPA firm to periodically report on the status of the audit;
- contacting the CPA firm and the audited party to check on the progress of audit;
- working with FSLIC, the CPA firm, the audited party and other parties to resolve issues that arise during the course of the audit; and
- keeping FSLIC aware of the progress of the audit and any problems through monthly status reports.

The OIG also monitors the contract by approving invoices, reviewing draft reports, reviewing workpapers and following-up on audit findings. Invoices are approved by the OIG only for the amount of work performed to date and a percentage of the contract amount is held until a final report is accepted. Draft reports are reviewed by the OIG and other Bank Board offices to ensure that each report is complete, prepared in accordance with contract specifications, and accurate. The contractor's workpapers are reviewed prior to issuance of the final report to ensure that the audit work was performed as specified in the contract, audit findings are properly documented, and the audit report accurately reflects the work performed. The OIG also monitors the audit findings to determine that all the issues are resolved.

The Bank Board will be or has implemented several steps to help ensure efficient and effective use of outside accountants, including:

- transferring the FSLIC financial audits to the OIG as of March 30, 1987;
- increasing staffing to accommodate the additional workload;
- using a Basic Ordering Agreement (BOA) to speed up contracting;
- assigning more experienced, senior-level personnel to the audit function; and
- expanding competition in awarding contracts.

Overall, the OIG carefully monitors all contracted services from before the actual signing of a contract until the final resolution of all audit findings. OIG ensures that the work is needed and is performed in an acceptable manner, the final product is reliable and useful, and all issues identified are resolved.

Guidelines For The Management Of And Control Over Outside Attorneys

Introduction

On October 12, 1987 the Bank Board directed the Office of General Counsel (OGC) to review the Bank Board's systems and procedures for managing outside attorneys. The guidelines set forth herein are preliminary guidelines based on the recommendations from that review. OGC intends to review these procedures and prepare a formal guide for legal representation for distribution to all outside counsel.

For purposes of this report we have summarized the preliminary guidelines in two parts: (1) Guidelines for Selecting Outside Attorneys and (2) Guidelines for Managing Outside Attorneys.

Guidelines for Selecting Outside Attorneys

- OGC will maintain files, organized by state ("state files") which contain the resumes of all law firms wishing to represent the FSLIC. Firms wishing to be considered for FSLIC work are instructed to submit a letter or firm resume describing the firm's qualifications, experience, geographic areas served, and any existing representation that may pose a conflict of interest.

- The OGC may require interested firms to bid for business on a state, regional or national basis for particular expertise. A "Qualified Firm List" (QFL) may then be compiled based upon the factors listed below. Because of the very specialized nature of work, QFLs are already used by OGC/FSLIC for mergers and acquisitions work, and by the Insurance Division of the FSLIC. All QFLs will be rebid every two years.

- When a decision is made to retain outside counsel, an OGC attorney will compile a pool of at least three firms, and if possible six to ten firms, that do not have disqualifying conflicts. If a QFL has been compiled for the area, selection will be made from that list. Otherwise the pool will be compiled from the "state files", Martindale-Hubbell searches and other reliable references. The firms will be compared on the following factors:

  o Experience: The experience and competence of the law firm handling the type of work required by the assignment is of paramount importance. For instance, to act as primary outside counsel for the FSLIC in its receivership capacity, a firm would have to have corporate, real estate workout, litigation and bankruptcy expertise.

- o Capacity: Most of the assignments are large in size and scope, and the firm must have sufficient people to handle the case. Generally, the firms are expected to have at least 20 attorneys. At present, the lead firm may subcontract work to other firms with the concurrence of the OGC where considerations of additional expertise and cost efficiency warrant.

- o Geographic Proximity: Firms located near the locus of the anticipated legal problems will generally receive preference under this category due to the lower transportation costs, convenience, knowledge of local courts, etc.

- o Costs: Firms having the most competitive fee structure will receive preference under this category. The OGC attorney will obtain a discount off the firms standard rates in virtually every case due to the large volume of business expected from the assignment.

- o Conflicts: The absence of other savings and loans ("S&L") representation is entitled to preference under this category. The existence of other S&L representation may be given no significance or negative significance depending on the nature and degree of involvement. Direct, substantial conflicts are disqualifying.

- The selecting OGC attorney will prepare a recommendation memorandum, which outlines the scope of work, the process of selection, and a detailed analysis of how the firms compared under the standard criteria. The selection process follows a standardized format and is reviewed in every instance to insure completeness and fairness.The selection must be reviewed by agency procurement officials and approved by the General Counsel or his designee.

Guidelines for Managing Outside Attorneys

- When outside counsel is retained, a written contract will be executed between the law firm and the FSLIC.

  - o Except in unusual circumstances the contract is a labor-hours contract with fixed hourly rates.

  - o Requests for rate increases will be considered after one year of performance without regard to a firm's normal annual rate increases. A firm should never assume it will be granted a rate increase. A rate increase will be effected only by a written amendment to the contract signed by the contracting officer.

- o The first rate a firm negotiates with the requesting attorney is applicable to all other contracts it performs for FSLIC within one year of negotiating its first rate schedule. Firms will be permitted to underbid this contract where circumstances warrant, but they cannot bid higher.

- When outside counsel is first retained for a FSLIC corporate matter, the managing OGC attorney shall estimate the initial cost of the matter and prepare a "Form 812" (request for authorization for expenditures of funds) to obtain funds to cover the first 90 days of legal expenses (generally less than $250,000). The law firm will be instructed to prepare a case plan and budget for each case as soon as possible. The case plan and budget must be approved by the OGC attorney and his/her supervisor. Plans and budgets for major cases will be approved by the General Counsel or his designee.

- Outside counsel will be instructed to keep a cumulative total of all expenditures under the contract. When 75% of obligated funds have been expended, outside counsel should notify OGC counsel and the case or matter shall be reviewed to ascertain whether additional funds will be necessary. If additional funds are warranted, the current budget will be presented with a supplemental Form 812, and the budget will be reviewed by the OGC as part of the requisition process. In those instances where a Form 812 is not presently utilized (e.g. receiverships), the budgeting process also will be utilized and review of the budget will be the same as where a Form 812 is utilized.

- A standard invoice containing case description information, financial estimates, and current fee billing information will be provided for the law firm to use in their monthly billing. The standard invoice will be completed for each legal matter being handled under a given contract. The law firm will attach to the standard invoice the chronological log of billable items, i.e. memos, research, pleadings, briefs, court appearances, phone calls, conferences, etc., incurred in handling a specific matter. In addition, the law firm will provide an alphabetical list of all tasks performed which required ten or more hours of billable time. This reporting requirement will facilitate a rapid and thorough review of the fees and tasks performed during the month.

- The OGC Legal Information Management System ("LIMS") is a computer-based case tracking and management system for all Bank Board legal matters in which fee counsel is used. It will store current and historical case financial information. The design phase of the system is complete, the program has been written, and testing has begun. LIMS will be an integral part of the comprehensive system of legal, financial and management controls of the Bank Board. It will provide standardized information about every legal case or matter being handled by the Board, including tracking of fees, issues, settlements, and judgments. The "teeth" of the management system being implemented is the work authorization number requirement. All law firm procurement contracts are being amended to require that outside counsel receive a work authorization number from the managing OGC attorney for each case or other matter being handled before work is begun. A law firm will not be paid for any work undertaken without a dated work authorization number. To get the number, the law firm provides initial case description information, including its initial estimates of fees and expenses, including those of sub-contractors, and the time to completion of the matter. This information is then entered into LIMS. In this manner, the work authorization number will (a) promote accountability by making accurate fee information available to mid- and upper-level supervisors, and (b) establish a reviewable budgetary element by requiring the law firm to provide an initial estimate of their fees and expenses at the case level.

- OGC counsel is required to monitor the cost and performance of outside counsel. The Board's objective is to obtain the best possible resolution of legal matters at the lowest possible cost to the FSLIC. Monitoring is performed through daily communication between the OGC attorney and outside counsel, and by review of the detailed billing statements that outside counsel are required to submit on a monthly basis.

- If outside counsel spend an unreasonable amount of time on any project, or the work requires an inordinate amount of revision by the OGC attorney, the firm will be asked to reduce the bill accordingly. If a problem with performance arises, the OGC attorney will discuss the difficulty with the senior partner at the law firm overseeing the work. If the difficulties are not resolved satisfactorily the law firm will be replaced.

- OGC attorneys will work closely with outside counsel to develop case plans, to keep the case on course, to conduct cost/benefit analysis, and to make "go/no go" decisions. Decisions to file suit on major cases (e.g. directors and officers liability cases) generally are made by the Director of the FSLIC with the advice of the General Counsel. Decisions on other suits will be made pursuant to written delegations. All decisions to initiate litigation will be based upon sound likelihood of success and likelihood of recovery evaluations.

- Outside counsel will pursue litigation with the objective of resolving disputes in the most expeditious and cost effective way. Firms will avoid coercive, delaying or obstructive tactics in pleadings and in the discovery process. The Board discourages engaging in motion practice unless there is some clear, strategic advantage to be gained.

- Drafts of all pleadings and filings of a substantive nature (e.g. complaints, answers, briefs, etc.) will be submitted to the OGC attorney far enough in advance of filing deadlines to allow for a meaningful review. The OGC attorney may agree with outside counsel upon items that are routine and do not require prefiling review.

- Outside counsel must assess the likelihood of success on the merits of each matter and the likely economic recovery. OGC attorneys will work with outside counsel to identify settlement possibilities or issues for summary judgment early in the proceedings to attempt to resolve disputes with a minimum cost to the FSLIC. Outside counsel will be required to update their success and cost estimates on a monthly basis utilizing LIMS.

- All settlement offers or bankruptcy plans must be reported immediately to the responsible OGC attorney, who will review them and obtain any necessary approvals. The Board will consider settlements having public policy ramifications. Otherwise, settlement authority is delegated to the General Counsel and the Executive Director of FSLIC. This approval process is substantive in nature and not a mere formality. Therefore, opposing parties should be advised that while the views of outside counsel and the OGC attorney will be given weight in the decision-making process, they do not guarantee approval.

- Each outside firm retained should be evaluated in writing on an annual basis on the basis of the following factors:

  - o Complies with OGC's financial policies.
  - o Cooperates, e.g., returns telephone calls and answers correspondence.
  - o Produces quality work on schedule.
  - o Develops and maintains good working rapport with OGC lawyers and paralegals.
  - o Follows OGC suggestions or pursues alternative courses after discussing them with OGC in advance.
  - o Listens to OGC explanations and instructions.
  - o Gives practical advice.

- Achieves results.
- Is willing to train inside counsel.
- Works effectively with other outside counsel.
- Complies with contracting procedures.
- Charges appropriate fees in light of predefined standards for certain work.

- Results of the law firm evaluations should be discussed internally at OGC, synthesized and reviewed with the outside firms,and considered in the bidding process.

Guidelines For Use Of Private Investigators

Private investigators are frequently used by the Office of General Counsel and FADA to develop information concerning cases in litigation and problem assets. For example, it is not uncommon for defendants in lawsuits to attempt to hide assets. Private investigators can be very helpful in uncovering these assets so that they can be levied upon for the benefit of FSLIC.

In order to better assure that private investigators will be employed only where appropriate, the following guidelines should be considered:

- The standard law firm contract will be modified to require advance OGC approval of the hiring of any private investigator by a law firm. The request for approval shall include: (a) the names of the parties to be investigated; and (b) the materiality of the information sought to specific litigation or threatened litigation.
- The FADA asset management agreement will be modified to require that FADA acquire the Receivers prior approval before entering into a contract with a private investigator. FADA will be required to show that the proposed investigation is warranted and related to specific litigation relating to an asset owned by the Receiver.
- All private investigators working on behalf of FSLIC or FADA will be reminded of the necessity of working within the law. Coercive or other improper tactics will not be tolerated. The employing officer will be required to obtain regular reports from the private investigators and monitor the investigation to insure that it is being properly conducted.

Guidelines For The Management And Control Of Asset Managers

FSLIC in its capacity as receiver has utilized consultants (third party contractors) to assist in managing receivership portfolios. These consultants provide analysis, evaluation and asset management, and disposition services. The analyses and strategies are presented in individual asset business plans. A consolidated business plan is subsequently prepared which integrates the individual business plans into an overall cohesive strategy and plan of action that enhances FSLIC's ability to effectively manage the portfolio. These business plans are reviewed and approved by designated review committees and become the tool for managing the asset and the portfolio as well as the contractor.

Recognizing the need to effectively manage this process, FSLIC has developed a system and organization for this purpose. Vendor selection criteria, guidelines, and procedures have been established for FSLIC, in both its corporate and Receivership capacities. Contractor administration procedures have been drafted, identifying critical elements of the contract management process. These provide specific direction regarding the major categories of contract administration, including specifically: identification of responsible officials; reporting requirements; billing procedures; contract modification procedures; and final evaluation and closeout processes.

FSLIC has developed evaluation criteria and a methodology to review the performance of a contractor and the effectiveness of the contract. A contract review team has been established for this purpose. As part of this process, an "on line" system has been developed that facilitates assessment of critical factors in contractor performance. Information from these reviews will be used to identify industry standards for each type of contract task and for each type of asset within different geographical areas.

This uniform process now allows quicker recognition of portfolio problems as well as contractor weaknesses and strengths. This should ultimately contribute to more efficient contracts and cost containment. In addition, FSLIC management review teams analyze receiver processes as to compliance with established policies and procedures.

A standard form of asset management agreement will be developed to provide consistency with different contractors. In particular, the standard form will provide incentives for disposition of assets and compensation for managing assets assigned a zero value.

Guidelines For The Management Of FSLIC Conservators...

Since January 1986, eleven associations were placed into the Management Consignment Program through FSLIC conservatorship actions. Two of the conservatorships were subsequently liquidated with the insured deposits transferred to other institutions.

In all of the above cases, the Principal Supervisory Agents at the District Banks recommended to the Bank Board that a conservator be appointed based upon the unsafe and unsound condition of the association. The Bank Board approved the recommendations and appointed FSLIC as conservator and delegated to the District Banks authority to appoint a Special Representative for the conservator. In the majority of the conservatorships, the District Banks appointed existing supervisory agents who are employed by the respective District Bank and who serve as Special Representative for the conservator. These supervisory agents perform this added function without additional compensation.

In most instances, the existing board of directors of an institution placed into conservatorship is removed and a new advisory board of directors is appointed to provide guidance to the new management and the Special Representative. The management and the advisory boards are provided operating guidelines by the Special Representative for the conservator. The Special Representative has the authority to approve or deny all significant operating decisions recommended by the management. Within the next quarter, it is anticipated that plans will be completed for the disposition of these associations under conservatorship. These plans will provide specific guidelines on the direction for each conservatorship pending its sale/merger or liquidation.

Guidelines And Controls For The Management Of Appraisers

FSLIC asset valuation policy requires that appraisals be ordered for all real estate owned and for all troubled loans secured by real property. Prior to the recently enacted Appraisal Rule, effective January 7, 1988, appraisal reports were required to conform to the definition of market value included in R-41c, which also has been adopted by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and many appraisal organizations. The value estimate required to be provided by the appraiser must therefore not be a liquidation or "fire sale" value, and the appraiser is instructed to assume a reasonable period of time to expose the asset to the market.

Appraisals are obtained for each property, "as is", recognizing the physical and economic characteristics of the property as it exists at the time of acquisition. Additional appraised values may be required to estimate the prospective worth of partially completed properties upon completion of construction or improvements. This "as built out or completed" value allows analysis to be performed on the cost versus the benefit of completing the project rather than marketing and selling as is.

Each appraisal is performed by a third party "professional appraiser", as defined in Title 12 of the Code of Federal Regulations 571.1(a)(2). FSLIC policy requires that each appraiser be selected on the basis of his/her educational qualifications and experience in appraising property similar to the subject asset. Appraisals are intended to provide an objective estimate of the worth of the asset as determined by the market after reasonable exposure to that market.

Each appraisal report must include all three major approaches and valuation methodologies (market, cost and income), or justify why the omission of one approach is necessary. The reports must also contain all assumptions and limiting conditions, and include all the documentation and support used by the appraiser in reaching his/her conclusions.

In order to conform to the guidelines contained in the Appraisal Rule, which supersedes R41-c, FSLIC is drafting even more detailed policy and procedures for appraisals of FSLIC-managed properties. These drafts will include: specific guidelines and direction on determining the need for new appraisals; the procedures for qualification and selection of specific appraisers for a particular assignment; requirements for detail and documentation to be included in the reports; and, review procedures for the acceptance of final appraisal reports.

Guidelines For The Management Of FADA Contractors

FADA's 1988 goals include improving current procedures for contracting with third parties. Revised standards will be developed for contractors by geographic area and the selection process will be reviewed to assure cost effectiveness. In addition, a Minority Outreach Program will be developed to ensure access to the system by minority contractors.

Firms complete a Contractor Questionnaire that identifies the firm's service capabilities, prior experience and market place knowledge. These firms are then listed in the FADA contractor database to be considered for assignments in their respective market, product or service area. Prior to selecting a contractor, the FADA asset manager identifies all of the service requirements in order to define the assignment.

Asset Managers at regional offices select contractors from the database to perform assignments by one of three methods:

- Soliciting proposals from a number of contractors is by far the most common method of choosing a contractor.

  Three to six contractors are selected from the FADA database and interviewed by the asset managers prior to being asked to submit a proposal which is then evaluated on the basis of cost, time required to complete the project, and experience. Reference and credit checks are also part of the evaluation process.

- Direct awards are made in emergency or extenuating circumstances or when the contract award amount is so nominal that it does not justify the expenses of multiple proposals. This exception to the normal selection process is accompanied by a completely documented business rationale.

- Competitive bids are used when information on the project is so complete that the only variable is price. All other things being equal, the lowest bid is selected.

Each FADA selection is documented with a rationale for the selection process used and a summary of the relevant criteria in selecting a given contractor.

Contractors considered for an assignment are reviewed for actual, apparent, or potential conflicts of interest. Each is asked to complete a form outlining any competing properties, other FADA contracts, any former FADA employees to be involved in the assignment and documentation verifying no conflict of interest. Contractors considered are also required to read, sign, and return to FADA the "FADA Conflict of Interest Policy for Contractors."

FADA asset managers review performance of contractors at least once a month, reporting any problems or significant developments as they arise.

FADA conducts a complete evaluation of the contractor's performance at the conclusion of an assignment and uses this evaluation in considering the contractor for future assignments.

FADA also selects firms to perform appraisals on FADA managed properties. The selection process is essentially the same for appraisers as it is for contractors. FADA maintains a database of approved FADA appraisers who have met the following criteria:

- A minimum of five years of appraisal experience, as well as an excellent professional reputation.
- A demonstrated ability to render timely, accurate and unbiased opinion of value based on mature judgment and discernment of trends and economic influences on value.
- Membership in a recognized appraisal organization.
- References that reflect high professional standards and experience with the specific appraisal requirements of the FSLIC.

FADA typically selects two to three qualified appraisers and compares their relative experience with a specified property type or geographic area, time required to complete the appraisal, and fee.

Whenever possible, FADA's legal department provides representation of FADA on an in-house basis. However, FADA engages counsel when manpower or specialization requirements dictate. As with other contractors, FADA selects counsel based upon high quality legal service, reputation in the community, expertise, capacity, and competitive legal fees.

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202 [illegible]

Freddie
Mac

Owned by American
Savings Institutions

April 27, 1988

The Honorable Alan Cranston
Chairman
Senate Committee on Veterans' Affairs
Subcommittee on Housing and Urban Affairs
of the Senate Committee on Banking, Housing
and Urban Affairs
535 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Cranston:

This is in response to your letter of March 11, 1988 in which you requested additional information on Freddie Mac's disposition of real estate we own. This information is enclosed.

If I can be of further assistance in this or any other matter, please do not hesitate to contact me at 789-4750.

Sincerely,

Jeanne Broyhill

Jeanne M. Broyhill
Legislative Director - Federal Relations

JMB/rhw

Enclosures

1. The number of foreclosures, and the inventories of foreclosed properties, have increased substantially in Texas in the past five years. What aspects of this problem are unique to Texas? Under what conditions could this problem be replicated in other areas of the country?

The foreclosure situation in Texas was caused not by one factor but by a unique combination of several factors compounding each other - a rapidly growing and undiversified economy coupled with overbuilding and a rapid appreciation in house prices.

When the economy in Texas subsequently collapsed, there was, in turn, a mass population exodus which caused an unprecedented number of vacant homes to become available in the market at one time. This overabundant supply of homes, compounded by a diminishing demand for housing, resulted in a significant drop in real estate values. Any area of the country experiencing the same set of unique circumstances as found in Texas could potentially produce similar results.

2. There are currently foreclosure problems in Alaska and Colorado. How are they similar to the Texas problem? How do they differ?

Both Alaska and Colorado, like Texas, rely heavily on a single source of employment. However, Freddie Mac has little Real Estate Owned (REO) in either Alaska or Colorado to draw any significant comparisons with the REO situation in Texas. One less significant comparison is that Freddie Mac's Alaska and Colorado REO are scattered throughout the states as opposed to being concentrated around major metropolitan centers as in Texas.

3. What is your response to the following criticism of the way government entities dispose of foreclosed properties?

> **The principle objective of government entities in the area of property disposition is to recoup their losses as rapidly as possible. This objective leads to rapid selling of properties at below market prices. Selling at such prices leads to a further cycle of foreclosure.**

Freddie Mac does not believe that our current practices for disposing of REO lead to overly-rapid selling of these properties at below market value or to further foreclosures. Our goal is to recover current market value and to dispose of the property within a reasonable period of time consistent with local market conditions.

The process by which Freddie Mac disposes of REO properties is as follows. Within 20 days of acquisition of a property by Freddie Mac, lenders are required to submit to the appropriate Freddie Mac regional office a current appraisal on the acquired property. The appraisal is to be completed by a qualified appraiser, reflect the value of the property in its present condition and, when applicable, in a repaired condition. The lender must also submit a market analysis completed by a real estate broker familiar with the area where the property is located. The market analysis must include market conditions, the number of properties for sale, recent sale prices of comparable properties, the most probable sales price of the subject property and the anticipated market time. Freddie Mac then sets a sales price on the property based on current fair market value information. At least every 90 days, should the property remain unsold, the market value is reassessed and the listing price of the property adjusted accordingly.

Freddie Mac must also take into account what effect the sales price for REO may have on other properties on which the corporation holds mortgages that are not in default. If we were not sensitive to selling REO to market value, we would potentially jeopardize our existing holdings.

There is no evidence that our REO disposition practices have resulted in additional foreclosures. In cases where we have assisted in the finance of these sales, our foreclosure experience on the new financing is negligible.

4. A separate criticism of federal property disposition is that government entities have no coordinated strategy. What efforts has your agency made to coordinate property disposition activities with those of other federal agencies and federal government-sponsored entities? What types of additional coordination would you recommend? What would be the benefits? What, if any, obstacles - legislative or otherwise - prevent or hinder such coordination?

Each federal agency and government-sponsored entity (GSE) has varying degrees of REO inventory, not only with respect to locations of the REO but also property type. Such differences could make any extensive coordination of disposition activities difficult and potentially result in a marketing strategy that "works for some, but not for all."

When possible, Freddie Mac coordinates the disposition of REO with others. For example, we have been involved in a limited number of REO auctions with other investors, government agencies and local lenders. And we are certainly willing to continue sharing information with other federal concerns on a routine basis.

One negative effect of extensive formal coordination would be to give the appearance that the agencies and GSEs as a coordinated group are controlling local real estate prices for the benefit of the government and without regard to the effect it has on the community and individual homeowners attempting to sell their homes.

5. Under what circumstances might the potential loss on a foreclosed property be so great that it would be more advantageous for the federal government to hold on to that piece of property?

Holding on to a property to avoid large losses would be advantageous only if there was clear evidence that the property will increase in value at some future date. As you can imagine, predicting market value increases is as difficult as predicting market value declines. There may be some advantage, however, if the property is generating income and is expected to do so for the duration of the holding period.

Foreclosed properties, especially vacant properties, do not typically increase in value in any economy. Holding on to such properties on the speculation that they may increase in value may ultimately result in a greater loss than initially anticipated. Holding costs as well as hazard risks further discourage holding on to properties for possible future gain.

6. How might a public, for-profit entity be helpful in the management and disposition of government-acquired foreclosed properties? What would be the advantages and disadvantages of creating such an entity?

Third parties may be beneficial to entities with minimal REO and/or experience where setting up in-house operations may not be warranted. Entities with large REO inventories and/or extensive experience are better served by having their own management and disposition operations to assure better control and cost effectiveness.

During the past several years, with the increase in REO, major owners of REO properties have responded appropriately by gaining expertise in the disposition of these properties. Third parties would only add another layer of cost in the form of management fees and would probably add little in the way of overall coordination.

7. The attached New York Times article of April 28, 1987, reports that the Houston Housing Authority has purchased 307 homes repossessed by the FHA to use as low-income apartments. Should this activity be expanded? How could your agency better target the disposition of foreclosed properties to benefit low- and moderate-income homeowners or renters?

8. To what extend could your agency's response to the Texas experience make it more difficult for low- and moderate-income families to buy homes in the future?

The New York Times article is nearly one year old and the information should be brought current as to how the program by the Houston Housing Authority is working today. The article does not provide sufficient data on the terms of the sale of the properties by FHA. The article only states that the ultimate occupants of the homes were low income renters and, inasmuch as the homes were purchased from FHA by the housing authority, there is no linkage between FHA and the renters. The article does not state whether the $30,000 price per home represented other than the fair market value of the property nor whether FHA made any concessions on the basis that low income families would ultimately occupy the homes.

The normal practice for REO disposition is to expose these properties to the general public through multiple listing services, printed media ads and occasionally electronic media. This exposure is designed to reach the widest range of potential buyers in all economic strata, including low and moderate income families. One example of the effectiveness of this approach is the first REO auction held by Freddie Mac in Houston in 1985.

When Freddie Mac decided to conduct its first REO auction in Houston, our intent was to maximize the exposure of the auction to the general home buying public as opposed to investors. An extensive media campaign alerting the general public in the Houston area to the auction began one month in advance of the March 1 auction date. Media coverage included ads and general news stories in the Houston Post, Houston Chronicle and the Galveston Daily News, as well as radio and television ads on four local television and two radio stations. In order to ensure that local housing organizations were also alerted to the auction, Freddie Mac's Government Affairs staff contacted the local congressional offices representing the Houston area to provide them with all the necessary information.

This extensive media campaign geared to the general public helped in attracting approximately 5,000 people to the auction. Of the 1,805 who registered to bid, 1,422 were families and only 372 were investors. As an extra consumer service, special financing was made available to family purchasers but not to investors. Families purchased 99 of the 162 properties auctioned at an average price of $39,800.

Freddie Mac's on-going practice is to provide as many opportunities as possible to help low- and moderate-income families purchase affordable housing, whether through the normal home loan purchase process or through the disposition of REO. Freddie Mac welcomes the opportunity to sell its REO properties to any public or private entity to benefit low-income homeowners or tenants, provided that the terms of the sale are mutually agreed upon.

9a. How soon after an agency loan goes into default does the agency receive notice of default?

Freddie Mac requires lenders who service loans for Freddie Mac to report mortgages that are 30 days (one mortgage payment) in default.

9b. What actions are taken by the agency upon receipt of such notice?

When a mortgage becomes 60 days in default (two mortgage payments), Freddie Mac requires the lender to provide the following information:

- o Mortgage loan number.
- o Date of last verbal contact with the defaulting borrower.
- o Property inspection.
- o Reason for the default.
- o The lender's plans to resolve the default.

The lender must make every conceivable effort to attempt a face-to-face interview (beginning at the 45th day of default) with the borrower. This may be impossible if the borrower has vacated the property and left the area with no forwarding location.

9c. What does the agency do to provide loan servicing and financial counseling to borrowers in default on such loans?

A lender who services mortgages for Freddie Mac must have sufficiently skilled staff in financial counseling and mortgage servicing techniques to assist borrowers in bringing their mortgages current. The lender must make personal contact with a delinquent borrower as often as is necessary to achieve a solution that will bring the mortgage current in a mutually satisfactory manner. The lender must be fully familiar with the forms of relief available to the borrower and must use such relief, when appropriate, rather than recommend termination of the mortgage. Lenders can offer special forbearance to borrowers for up to 18 months (or for a longer period of time with Freddie Mac approval) should there be the likelihood that the borrower can bring the mortgage current.

Freddie Mac prohibits lenders from instituting foreclosure without first obtaining written approval from the corporation. Freddie Mac will not approve foreclosure until we are satisfied that all possible means of curing the default have been exhausted.

10. What special steps are taken in areas such as Houston where your agency has acquired sizeable inventories of foreclosed properties, with respect to: (a) loan servicing; (b) property acquisition; and (c) property disposition?

Freddie Mac takes special care in allocating its resources according to the needs of an area to ensure that local conditions or volume receive from the corporation sufficient resources to apply individual attention to each mortgage in default or foreclosure, or a property that has been acquired through foreclosure.

11. What has your agency done to educate real estate agents regarding, and to increase their participation in, your property disposition program?

Freddie Mac looks for experience in a given market area prior to choosing a real estate broker. The corporation requires brokers to be licensed in the community where they will be utilized and to be members of the local multiple listing service (MLS) boards. Often intensive interviews are held to ascertain capabilities. Once hired, Freddie Mac holds training sessions to ensure that the corporation's policies and needs are understood. Performance is monitored on an ongoing basis. Deviation from the procedures established by Freddie Mac will result in the termination of a broker's services.

12. What is your agency's policy regarding:

a. Interest rate-levels on agency financing offered on foreclosed properties.

Freddie Mac finances approximately 15 percent of all foreclosed properties it sells. Interest rates offered are generally competitive with local markets. To facilitate greater access to low- and moderate-income families, however, we will offer lower rates under certain circumstances when interest rates are high.

b. Downpayment requirements on sales of foreclosed properties.

Freddie Mac typically requires a five percent downpayment, but will make exceptions in some areas if market conditions warrant and the purchaser can demonstrate a strong ability to maintain his mortgage obligation.

c. Use of auctions to sell agency-acquired foreclosed properties.

Auctions are normally reserved for single family properties which have been exposed to the market for a period of time but have failed to attract buyers through the normal channels (ie., multiple listings, advertisements). Since 1984, Freddie Mac has participated in approximately 41 auctions, and the properties sold at these auctions accounts for only four percent (or 634 properties) of the 14,951 properties sold by the corporation.

d. Rental of agency-acquired foreclosed properties.

When a rental market exists and the corporation finds renting homes economically feasible, tenants will be sought. Renting is more common in two-to-four family units. Multifamily properties are already tenant-occupied when the corporation acquires title to the property. Freddie Mac generally retains tenants who are occupying homes at the time of acquisition and offers those tenants who are financially qualified an opportunity to purchase the home.

e. Retaining a percentage of the equity in such properties when they are sold by means of agency financing.

Freddie Mac does not retain any equity in the properties it sells.

13. What steps is your agency taking to prevent or minimize the impact which a "Houston-like" - i.e., economically depressed - market could have on it?

Freddie Mac maintains underwriting standards and a quality control system that ensure that the mortgages we purchase are of investment quality. These underwriting standards require that the borrower is capable of repaying the debt and that the real estate securing the debt has sufficient value to satisfy that debt. Our underwriting guidelines are subject to ongoing reviews to ensure that they most accurately reflect changing economic conditions. Inasmuch as predicting the economic decline of an area of the country is difficult to determine, the corporation continuously monitors changing economic conditions throughout the country, monitors its risk exposure in light of these conditions and maintains adequate reserves to cover any projected or potential losses.

14. When and how often will an agency-acquired foreclosed property be appraised?

The answer to this question appears as part of the answer to question number three.

Specific - Please answer the following questions with data for each of the past five years and the current period, and differentiate between the types of foreclosed properties (i.e., percentage of single family, multifamily, condominium, etc.) that your agency has held.

15. What has been the price range of these properties? How many foreclosed properties has your agency held in each state (be specific)? What percentage of the total number of foreclosed properties - private and government-owned - in each state has your agency's portfolio represented?

Answer appears as Attachment A.

16. What has been the average loss per property?

Answer appears as Attachment B.

17. What has been the average holding time for foreclosure to disposition? What are the various types of costs associated with the average holding time from foreclosure to property disposition?

The first part of the answer appears as Attachment C.

Typical costs associated with holding foreclosed properties include:

- Financing the unpaid principal balance. Foreclosed mortgages are repurchased from investors with funds that cannot otherwise be invested.
- Real estate taxes.
- Hazard insurance or related risk.

- Property maintenance and unexpected repairs due to vandalism.
- Homeowner's association fees, when applicable.

18. What percentage of the average unpaid principal balance are you able to recover in Texas. In the country as a whole?

Freddie Mac tracks not only unpaid principal balance on REO but the entire investment costs including uncollected interest as well as expenses. The recovery percentage of this amount has been as follows since 1985:

	Texas	Nation
1985		
Condo	95%	90%
Single-family	92%	88%
1986		
Condo	63%	82%
Single-family	83%	83%
1987		
Condo	60%	76%
Single-family	73%	75%
1988 (Jan., Feb.)		
Condo	58%	72%
Single-family	74%	74%
Multifamily- To Date	58%	61%

19. Describe the various process your agency has used to dispose of property. What is currently the most favored method? Why?

The most frequent method of property disposition used by Freddie Mac is the retail method whereby properties are placed on the market individually. The corporation has sold 96 percent of its REO inventory in this manner with the balance, as indicated in question 12c, by auction. The retail method provides better control of the disposition process and a better indication of true market value.

A property is exposed to the market for a period of time giving the seller the opportunity to test the market based on interest demonstrated by potential buyers.

20. To what extend are properties repaired prior to being sold? What is the average amount per property spent on such repairs?

A variety of factors go into deciding whether to make repairs and to what extent. Repairs needed to comply with local code requirements are made automatically, whereas other repairs are based on business decisions as well as on the need to accommodate the market and potential purchasers. Freddie Mac's corporate average repair costs on condominium and single family properties sold during the past five years are indicated below.

Year	Condo	Single-Family
1983	$ 900	$2,600
1984	1,100	2,400
1985	1,400	2,400
1986	1,300	2,200
1987	1,700	2,500
1988 (Jan.,Feb.)	1,800	2,600.

21. What sales incentives are offered? What finance mechanisms are used? What financing packages are offered?

Sales incentives offered by Freddie Mac are based on sound business judgments in conjunction with conditions existing in the marketplace. There are no standard packages that are offered in any given place or time. Incentives may range from paying allowable closing costs on behalf of the borrower to paying recurring expenses such as homeowner's dues on behalf of the buyer for a specific time. When the corporation offers special financing (such as below-market interest rates) it does so through selected lenders who will originate and close the new mortgage and then sell that mortgage to Freddie Mac. Financing packages are usually associated with large-scale auctions. These will usually include pre-announced terms and effective dates.

22. What to the buyer profiles look like? What protections are there against speculative purchasing?

The overwhelming majority of purchases of Freddie Mac's REO on a retail basis are buyers who intend to occupy the premises. More than half of the homes sold in auctions have been sold to owner-occupants as well. To date, the corporation has had few instances where several properties were sold to the same individual or entity in either an auction or retail environment. Since the corporation is selling most of its properties to individuals, it is unlikely that a significant number of purchases have been speculative.

Attachment A

INVENTORY

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
HELD, BY STATE, AS OF PERIOD ENDING:

15.

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	Q2 88
AK	CONDO	0	0	0	0	18	19
	SF	0	0	4	20	57	67
AL	CONDO	0	1	3	0	0	0
	SF	8	8	3	9	10	10
AR	CONDO	0	1	0	0	1	1
	SF	3	3	12	17	14	17
AZ	CONDO	8	23	22	28	41	41
	SF	8	10	21	34	24	32
CA	CONDO	392	565	421	249	190	169
	SF	649	842	437	278	190	167
CO	CONDO	7	29	61	80	158	177
	SF	15	54	81	107	117	118
CT	CONDO	0	2	0	0	0	0
	SF	1	1	0	1	0	0
DC	CONDO	11	9	6	5	3	4
	SF	10	12	12	5	4	4
DE	CONDO	0	0	1	0	0	0
	SF	0	0	0	0	2	1
FL	CONDO	7	21	24	40	64	61
	SF	10	35	33	51	131	125
GA	CONDO	5	6	2	11	15	22
	SF	9	3	6	32	38	39
HI	CONDO	0	1	2	5	4	3
	SF	1	3	3	0	1	1
IA	CONDO	0	0	0	1	1	1
	SF	13	37	55	99	104	99
ID	CONDO	0	2	3	2	2	1
	SF	12	14	11	11	18	22
IL	CONDO	13	15	21	11	14	12
	SF	37	69	155	158	151	137

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(continued)

INVENTORY

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
HELD, BY STATE, AS OF PERIOD ENDING:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	12/88
IN	CONDO	0	0	0	3	7	4
	SF	20	27	21	31	37	38
KS	CONDO	0	0	0	1	2	1
	SF	23	33	34	44	[illegible]	62
KY	CONDO	0	0	0	0	1	1
	SF	6	13	8	18	15	15
LA	CONDO	1	3	7	13	[illegible]	21
	SF	0	8	31	57	[illegible]	115
MA	CONDO	2	1	2	1	[illegible]	[illegible]
	SF	1	1	2	0	1	[illegible]
MD	CONDO	42	11	11	14	11	12
	SF	[illegible]	7	9	7	[illegible]	9
ME	SF	[illegible]	[illegible]	[illegible]	0	[illegible]	[illegible]
MI	CONDO	4	6	5	3	[illegible]	1
	SF	158	154	[illegible]	78	107	101
MN	CONDO	0	1	2	5	2	1
	SF	7	14	12	23	55	53
MO	CONDO	1	0	0	0	2	2
	SF	6	13	24	22	31	30
MS	CONDO	0	0	1	0	0	0
	SF	2	9	6	8	24	21
MT	CONDO	0	0	0	0	1	1
	SF	2	5	6	8	21	18
NB.	SF	2	0	0	0	0	0
NC	CONDO	1	0	0	2	3	4
	SF	5	4	3	11	10	12
ND	CONDO	0	0	0	1	2	2
	SF	4	7	5	24	24	29

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(continued)

INVENTORY

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
HELD, BY STATE, AS OF PERIOD ENDING:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	Q2 '88
NE	CONDO	0	0	0	1	0	0
	SF	4	18	33	43	46	51
NH	CONDO	0	0	0	0	1	1
	SF	0	0	0	0	0	0
NJ	CONDO	0	3	1	0	0	0
	SF	8	9	3	10	16	14
NM	CONDO	0	1	1	0	4	4
	SF	2	8	14	15	34	33
NV	CONDO	3	4	13	5	6	7
	SF	9	9	10	11	8	9
NY	CONDO	0	1	1	0	0	0
	SF	2	3	4	5	6	6
OH	CONDO	2	1	3	5	4	4
	SF	131	128	128	129	102	113
OK	CONDO	0	1	4	9	26	24
	SF	13	15	51	261	342	409
OR	CONDO	4	13	20	6	9	9
	SF	52	106	130	126	121	120
PA	CONDO	6	3	4	6	6	5
	SF	21	21	29	30	36	36
PR	CONDO	1	3	0	2	0	0
	SF	51	33	29	15	11	10
RI	CONDO	1	0	0	0	0	0
	SF	1	0	2	0	0	0
SC	CONDO	1	4	0	2	5	4
	SF	1	4	1	5	11	10
SD	SF	2	1	0	0	6	7
TN	CONDO	0	0	0	0	1	1
	SF	3	1	3	1	3	3

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(continued)

INVENTORY

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
HELD, BY STATE, AS OF PERIOD ENDING:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	02/88
TX	CONDO	13	48	109	282	517	523
	SF	24	123	382	960	1987	2099
UT	CONDO	7	12	15	27	22	27
	SF	24	40	43	53	100	107
VA	CONDO	3	8	5	2	2	1
	SF	7	10	11	9	4	4
VT	SF	0	0	1	0	1	0
WA	CONDO	31	42	56	47	35	36
	SF	86	142	123	137	135	139
WI	CONDO	0	0	0	1	3	2
	SF	23	2[illegible]	37	40	54	55
WV	SF	1	3	9	5	7	11
WY	CONDO	0	2	3	4	7	8
	SF	9	34	51	89	114	114

15. Freddie Mac is not aware of any organization which maintains accurate data on all completed foreclosures by all lending institutions nationwide. Therefore, the corporation cannot determine its percentage of the total foreclosures in any state.

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SALES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

15.

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
AK	CONDO			1	1	1	6
	SF				13	21	8
AL	CONDO			1	5	1	
	SF	4	9	11	14	14	1
AR	CONDO			1			
	SF		6	8	15	16	5
AZ	CONDO		5	18	24	38	8
	SF	4	7	9	22	45	9
CA	CONDO	105	144	513	495	407	67
	SF	286	405	840	586	459	81
CO	CONDO	2	8	24	55	89	24
	SF	13	17	49	102	137	44
CT	CONDO			1			
	SF		2	2	3	1	
DC	CONDO	3	12	11	8	10	
	SF	4	3	8	14	3	1
DE	CONDO		1		1		
	SF	1			1	1	1
FL	CONDO	2	8	39	50	81	26
	SF	14	23	60	79	135	41
GA	CONDO	10	4	13	10	20	6
	SF	5	19	11	24	42	14
HI	CONDO			1	1	8	1
	SF			3	3		
IA	CONDO				2	3	
	SF	8	14	49	99	188	39
ID	CONDO			1	3	1	1
	SF	3	7	15	18	18	1
IL	CONDO	5	14	13	19	21	5
	SF	15	43	75	212	261	52

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continued

SALES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
IN	CONDO			1	1	1	5
	SF	12	27	40	42	53	12
KS	CONDO						1
	SF	8	21	49	55	85	21
KY	CONDO				2	2	
	SF	4	14	16	17	26	3
LA	CONDO			2	3	12	4
	SF	2	3	11	12	33	18
MA	CONDO		5	1		1	
	SF		1	1		1	2
MD	CONDO	10	12	16	10	15	2
	SF	6	11	10	11	6	1
ME	SF	2		1			
MI	CONDO	1	3	5	5	3	
	SF	74	164	174	209	168	34
MN	CONDO			2	5	5	1
	SF	1	5	18	19	36	15
MO	CONDO		1				
	SF	5	13	17	32	32	13
MS	CONDO				1	1	
	SF	1	4	16	16	30	9
MT	CONDO						
	SF	2		9	11	14	7
NB	SF	1	2				
NC	CONDO		2	1		3	
	SF	3	10	11	9	22	3
ND	CONDO					1	1
	SF	4	4	9	9	37	6

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(continued)

SALES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
NE	CONDO					1	
	SF		7	21	43	63	7
NH	CONDO						
	SF					1	
NJ	CONDO	3		3	3	1	
	SF	4	10	11	10	21	6
NM	CONDO			1	1	1	1
	SF	1	1	9	11	39	9
NV	CONDO		4	5	14	10	1
	SF	1	8	9	11	14	4
NY	CONDO				1		
	SF	2	3	4	4	10	3
OH	CONDO		2	1	47	6	2
	SF	62	144	167	167	208	24
OK	CONDO		1	1		10	4
	SF	1	15	48	111	261	75
OR	CONDO	1	3	14	24	9	1
	SF	7	32	118	182	180	29
PA	CONDO	2	5	3	3	9	1
	SF	10	21	43	58	59	12
PR	CONDO		1	3	4	2	
	SF	20	51	43	33	18	1
RI	CONDO		1				
	SF	3	3	1	2		
SC	CONDO		1	4	2	6	1
	SF		2	12	3	18	2
SD	SF	1	1	1			
TN	CONDO						
	SF	3	6	6	11	7	1

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(continued)

SALES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
TX	CONDO		6	72	147	344	99
	SF	13	27	156	515	1180	354
UT	CONDO	9	4	8	21	43	4
	SF	5	15	29	58	77	22
VA	CONDO	6	2	13	6	1	1
	SF	7	17	20	20	11	
VT	SF				1		1
WA	CONDO	2	14	31	50	63	8
	SF	40	62	181	157	198	42
WI	CONDO					2	1
	SF	16	34	37	58	77	15
WV	SF	4	4	10	11	8	2
WY	CONDO			2	1	4	
	SF	3	10	3	30	53	24

15. Freddie Mac is not aware of any organization which maintains accurate data on all completed foreclosures by all lending institutions nationwide. Therefore, the corporation cannot determine its percentage of the total foreclosures in any state.

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AVERAGE PRICES*

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

15.

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
AK	CONDO			79100	106400	117300	44600
	SF				192300	147500	93800
AL	CONDO			24900	21600	21800	
	SF	45900	33700	30700	32000	35700	35900
AR	CONDO			18000			
	SF		28400	28600	28900	23100	39200
AZ	CONDO		37500	33800	38300	33400	47500
	SF	54800	36400	39100	61600	41700	46500
CA	CONDO	66300	63000	61700	57100	59300	61200
	SF	69300	67500	67800	65100	65200	66700
CO	CONDO	70700	42400	50700	42300	12400	24100
	SF	32400	44600	51400	52800	47600	46000
CT	CONDO			25100			
	SF		40400	61000	54200	46000	
DC	CONDO		32500	43000	35300	38600	62500
	SF	47500	51500	41400	50300	51400	21800
DE	CONDO		48300		65400		
	SF	23400			55200	67400	73100
FL	CONDO	43700	38000	32800	48200	40500	39800
	SF	44000	56500	50000	55500	54200	47100
GA	CONDO	46000	42200	35500	49400	40300	46300
	SF	48700	36800	43000	36300	43500	35700
HI	CONDO			35000	59600	89800	124800
	SF			94100	94300		
IA	CONDO				30000	24800	
	SF	30000	26300	24600	19000	18100	19700
ID	CONDO			26800	28900	22200	19900
	SF	35900	41600	40100	44700	58000	44600
IL	CONDO	37200	32100	28700	28900	33000	18200
	SF	44900	30600	30500	24500	22800	22400

* Rounded to the nearest $100.

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Question 15 - Multifamily

FORECLOSED MULTIFAMILY PROPERTIES, BY STATE

STATE	1983	1984	1985	1986	1987
ALASKA				1	6
GEORGIA					1
KANSAS				1	
NEW JERSEY	3				
TEXAS			1	8	18
WISCONSIN				2	

REO SALES PRICE RANGE, BY STATE

ALASKA	NONE SOLD TO DATE
GEORGIA	NONE SOLD TO DATE
KANSAS	NONE SOLD -- PROPERTY DONATED
NEW JERSEY	$260,000 TO $800,000
TEXAS	$55,000 TO $4,250,000
WISCONSIN	$112,000 TO $124,000

NOTE: Freddie Mac is not aware of any organization which maintains accurate data on all completed foreclosures by all lending institutions nationwide. Therefore, the corporation cannot determine its percentage of the total foreclosures in any given state.

Attachment I

AVERAGE GAINS/LOSSES*

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

16.

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
AK	CONDO			-1666	2907	2629	-28828
	SF				-2502	-18942	-53701
AL	CONDO			-1499	-6706	-11599	
	SF	953	863	-979	1713	-5988	-2071
AR	CONDO			383			
	SF		1636	-479	182	-3723	[illegible]
AZ	CONDO		813	-4041	-4456	-12325	[illegible]
	SF	838	-2163	-8063	-6605	-28436	-19534
CA	CONDO	[illegible]	-4165	-6221	[illegible]	-5641	[illegible]
	SF	-1569	-3111	[illegible]	[illegible]	-7494	-8843
CO	CONDO	1610	-699	-6168	-11210	-14671	-14721
	SF	-695	[illegible]	-5598	-2793	-16344	-15178
CT	CONDO			-1922			
	SF		-5926	1662	1252	[illegible]	
DC	CONDO	-6423	-7134	-4628	619	-4941	
	SF	-14197	-5478	-12837	-14191	-8215	[illegible]
DE	CONDO		90		1636		
	SF	-158			711	141	[illegible]
FL	CONDO	-867	-5283	-9965	-7333	-12630	-9911
	SF	4	-850	-8300	-6856	-9086	-10607
GA	CONDO	2455	1400	-330	-545	-3674	-1873
	SF	-2044	1241	-1661	-3927	-11504	-7957
HI	CONDO			-40588	-28240	-16288	799
	SF			-2606	-2098		
IA	CONDO				-3106	-14214	
	SF	-5894	-5005	-6027	-12288	-13718	-11720
ID	CONDO			-3195	-2214	-383	-10246
	SF	-11353	-2256	-7791	-8067	-10760	-16281
IL	CONDO	-3285	1602	-9596	-8419	-13142	-22293
	SF	-5529	-8334	-9003	-12922	-14211	-15497

* '-' indicates losses.

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(continued)

AVERAGE GAINS/LOSSES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
IN	CONDO			-8801	71	-9018	-12953
	SF	-7142	-2522	-3649	-7251	-8061	-5354
KS	CONDO						-27009
	SF	-1286	-3132	-4721	-4095	-9171	-10012
KY	CONDO				-4830	-10633	
	SF	-8716	-4056	-7782	-17948	-13415	-3899
LA	CONDO			2174	-16609	-21157	-31689
	SF	-3478	3336	-1558	-6200	-18489	-21128
MA	CONDO		-499	2337		-588	
	SF		-4713	17641		3039	-2290
MD	CONDO	170	-1233	-1419	270	-2630	-4472
	SF	-2680	-4301	-909	-193	-2422	-13178
ME	SF	1047		419			
MI	CONDO	5771	-25	-9048	-6108	-3277	
	SF	-7245	-5118	-9646	-9941	-10020	-9021
MN	CONDO			-3311	-16872	-14471	-13525
	SF	1471	-7473	-7253	-10564	-13084	-9987
MO	CONDO		3643				
	SF	-2677	-1117	58	-311	-6997	-5526
MS	CONDO				-2589	-21291	
	SF	6559	-4411	-5546	-1292	-5248	-3603
MT	CONDO						
	SF	-11192		1746	-8871	-6177	-13096
NB	SF	-4809	4278				
NC	CONDO		918	-2660		-6349	
	SF	2449	1798	-3135	-4372	-3524	-16849
ND	CONDO					-10758	1487
	SF	258	-7221	-10720	-16742	-14583	-15947

* '-' indicates losses.

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(continued)

AVERAGE GAINS/LOSSES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
NE	CONDO					-1438	
	SF		-5623	-4249	-6198	-14412	-9057
NH	CONDO						
	SF					239	
NJ	CONDO	-9611		-1548	-1418	-16706	
	SF	3277	-804	-5034	-4452	-5925	-3922
NM	CONDO			-351	1022	-41734	211
	SF	1528	-9192	-3499	-4371	-12068	-17442
NV	CONDO		2774	789	-665	-5867	3047
	SF	0	1894	-8414	-7568	-890	-5144
NY	CONDO		*		4652		
	SF	-2931	1356	1818	-4211	-2738	551
OH	CONDO		-3721	-4621	-3233	-10262	-13776
	SF	-4204	-4462	-3500	-12392	-10523	-8632
OK	CONDO		476	1111		[illegible]	-15173
	SF	16281	-290	-3411	[illegible]	[illegible]	[illegible]
OR	CONDO	-10515	-2167	-9934	-11711	-22409	324
	SF	-3881	-3396	-8959	-12125	-11687	-12772
PA	CONDO	-1632	-10239	-6925	-5510	-4896	1148
	SF	-3040	-3297	-3279	-4647	-5902	-6498
PR	CONDO		-2607	-2833	421	-2049	
	SF	-7617	-6130	-6571	-5905	-6330	2038
RI	CONDO		2884				
	SF	-2382	130	2996	674		
SC	CONDO		281	-3954	479	-2245	-2601
	SF		-246	-1929	-1828	-4938	-10265
SD	SF	151	-8556	-23819			
TN	CONDO						
	SF	67	-3131	-468	-674	-2773	1077

* '-' indicates losses.

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(continued)

AVERAGE GAINS/LOSSES

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
TX	CONDO		2506	-1887	-17566	-20025	-20922
	SF	3004	-1466	-3788	-9613	-15596	-14704
UT	CONDO	-3577	284	-5515	-5397	-14335	-12686
	SF	-2236	-4952	-6140	-8973	-14447	-13734
VA	CONDO	4782	-4	734	-645	8933	2114
	SF	1870	-1250	729	408	549	
VT	SF				416		1226
WA	CONDO	3090	-1509	-6239	-5445	-9027	-6787
	SF	-1414	-1713	-4538	-7150	-7211	-7573
WI	CONDO					-1762	969
	SF	-7388	-5867	-5379	-9871	-10008	-11356
WV	SF	1007	-3590	-426	-6715	-2711	-11078
WY	CONDO			-13526	1141	-12455	
	SF	2514	-690	-13040	-15191	-23127	-23604

* '-' indicates losses.

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Questions 16 - Multifamily

Average Loss Per REO Property, By State

Alaska	None Sold to Date
Georgia	None Sold to Date
Kansas	None Sold to Date
New Jersey	+ $ 77,342
Texas	- $453,985
Wisconsin	- $121,603

Attachment C

AVERAGE HOLDING TIME (DAYS)

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

17.

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
AK	CONDO			219	98	114	238
	SF				197	152	215
AL	CONDO			290	223	168	
	SF	178	252	288	172	234	396
AR	CONDO			165			
	SF		155	153	158	228	187
AZ	CONDO		240	422	301	252	112
	SF	196	186	386	258	228	150
CA	CONDO	301	360	483	369	209	185
	SF	281	379	455	281	204	178
CO	CONDO	184	250	268	305	260	245
	SF	247	267	304	252	202	177
CT	CONDO			160			
	SF		131	240	83	79	
DC	CONDO	182	400	549	129	280	
	SF	545	328	544	425	218	666
DE	CONDO		257		71		
	SF	33			44	98	56
FL	CONDO	113	206	283	179	199	167
	SF	91	170	241	147	171	193
GA	CONDO	70	297	203	122	163	147
	SF	67	192	227	121	186	207
HI	CONDO			595	398	313	59
	SF			460	241		
IA	CONDO				116	146	
	SF	338	338	259	252	184	167
ID	CONDO			259	236	792	385
	SF	254	334	354	268	150	143
IL	CONDO	419	253	375	328	221	361
	SF	336	273	315	229	223	172

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(continued)

AVERAGE HOLDING TIME (DAYS).

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
IN	CONDO			186	44	133	337
	SF	209	224	274	217	203	189
KS	CONDO						78
	SF	283	301	300	184	163	132
KY	CONDO				181	131	
	SF	14	206	250	163	153	94
LA	CONDO			145	528	519	117
	SF	229	102	247	226	246	201
MA	CONDO		223	274		362	
	SF		415	378		120	114
MD	CONDO	76	297	307	180	282	112
	SF	207	241	265	282	225	53
ME	SF	137		42			
MI	CONDO	189	233	407	221	166	
	SF	310	303	363	266	171	157
MN	CONDO			216	233	276	162
	SF	154	380	360	215	211	211
MO	CONDO		245				
	SF	179	223	304	168	235	176
MS	CONDO				388	203	
	SF	163	206	292	121	135	93
MT	CONDO						
	SF	193		245	164	202	117
NB	SF	149	146				
NC	CONDO		238	148		245	
	SF	159	181	175	146	168	205
ND	CONDO					77	82
	SF	130	176	309	226	163	279

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(continued)

AVERAGE HOLDING TIME (DAYS)

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
NE	CONDO					156	
	SF		226	294	210	257	159
NH	CONDO						
	SF					30	
NJ	CONDO	252		274	234	141	
	SF	201	212	346	148	123	186
NM	CONDO			288	136	111	136
	SF	2	255	246	267	252	225
NV	CONDO		379	161	273	180	177
	SF	48	299	447	266	176	157
NY	CONDO				498		
	SF	449	174	101	456	139	39
OH	CONDO		303	505	200	181	126
	SF	216	285	328	245	215	197
OK	CONDO		108	78		365	209
	SF	119	177	202	218	229	235
OR	CONDO	117	279	289	288	263	123
	SF	211	252	380	255	227	214
PA	CONDO	143	421	386	219	262	124
	SF	231	232	225	161	144	111
PR	CONDO		968	255	108	278	
	SF	401	401	301	284	264	272
RI	CONDO		177				
	SF	126	160	154	75		
SC	CONDO		146	312	51	141	170
	SF		196	129	132	120	218
SD	SF	243	309	1153			
TN	CONDO						
	SF	253	135	125	110	67	42

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(continued)

AVERAGE HOLDING TIME (DAYS)

CONDOMINIUMS AND SINGLE-FAMILY PROPERTIES
SOLD, BY STATE, DURING PERIOD INDICATED:

STATE	PROPERTY TYPE	1983	1984	1985	1986	1987	01/88-02/88
TX	CONDO		258	229	295	213	233
	SF	142	202	267	244	224	224
UT	CONDO	206	295	367	275	264	200
	SF	109	294	400	279	291	172
VA	CONDO	174	331	286	146	219	512
	SF	296	157	196	108	123	
VT	SF				56		42
WA	CONDO	149	373	512	402	431	195
	SF	231	314	362	281	230	193
WI	CONDO					34	121
	SF	283	233	249	199	159	159
WV	SF	116	244	159	244	149	303
WY	CONDO			315	150	775	
	SF	140	201	344	240	372	322

17. Typical costs associated with holding foreclosed properties include:

- Financing the unpaid principal balance. Foreclosed mortgages are repurchased from investors with funds that cannot be otherwise invested.
- Real Estate taxes
- Hazard insurance or related risk
- Maintenance of yard, shrubbery, etc.
- Homeowner's association fees, when applicable.
- Unexpected repairs due to vandalism.

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Questions 17 - Multifamily

AVERAGE HOLDING TIME, TO DATE, BY STATE

Alaska	11 Months, To Date
Georgia	5 Months, To Date
Kansas	19 Months
New Jersey	9 Months
Texas	9 Months
Wisconsin	10.5 Months

Follow-up questions submitted by Senator Cranston, Chairman of the Committee on Veterans' Affairs and of the Committee on Banking, Housing, and Urban Affairs to the Federal National Mortgage Association

GENERAL

1. Q: **The number of foreclosures, and the inventories of foreclosed properties, have increased substantially in Texas in the past five years. What aspects of this problem are unique to Texas? Under what conditions could this be replicated in other areas of the country?**

A: The foreclosure problem in Texas resulted from the combination of the following factors:

- The loss of jobs in the petro-chemical industry resulting from the decline in oil prices.
- Overbuilding in many areas because of earlier boom.
- Lack of adequate equity in properties largely due to the decline in home values, and in some instances, to minimal down payments.

The aspect unique to Texas and several other oil dependent states was the degree of economic reliance on a single product. A similar combination of factors could reproduce the situation elsewhere. However, at this time we do not see a similar combination of factors existing elsewhere.

2. Q: **There are currently foreclosure problems in Alaska and Colorado. How are they similar to the Texas problem? How do they differ?**

A:

- Alaska has similar dependence on oil, with even fewer non-oil related sources of revenue. The lack of other significant industry to buffer the loss of jobs caused by the decline in oil prices led to a high percentage of abandoned properties in Alaska. In addition, Alaska has experienced a drop in population as a result of the economic decline, further exacerbating the decline in property values.

- Colorado experienced a boom and subsequent compression of its economy because of oil prices similar to Texas. Also, similar to Texas, the general boom led to overbuilding in many areas. The cutbacks in the petro-chemical area were sufficient to strain other sectors of the state's economy, thus leading to more job losses and significant drop in home values in many areas. The relative strength of the machinery, transportation, semiconductor, printing and defense industries, however, cushioned the impact of the decline in oil prices. The magnitude of the problem in Colorado is significantly less than in Texas.

3. Q: What is your response to the following criticism of the way government entities dispose of foreclosed properties:

> **The principle objective of government entities in the area of property disposition is to recoup their losses as rapidly as possible. This objective leads to rapid selling of properties at below market prices. Selling at such prices leads to a further cycle of foreclosures.**

A: Few entities are equipped to engage in the risk of speculation that properties in distressed markets will appreciate--and not continue to depreciate--over time. Few can afford the the long-term holding costs and loss of use of funds involved in such an approach.

Institutions following Generally Accepted Accounting Principles, including Fannie Mae, must recognize the loss on property at the time of acquisition. This further increases the incentive for institutions following GAAP not to hold properties.

Areas having large numbers of foreclosures frequently have also experienced an oversupply of housing in addition to an extreme economic slowdown. Substantial value declines--as much as 25 to 40 percent in Houston--will inevitably surface in the market. Fannie Mae has an extensive program to maintain and repair our properties in order to produce market prices and offer terms which will attract owner-occupants. We take great pains to ensure that values are not made worse by selling properties at deep discounts caused by unrealistic marketing time or because properties are in poor condition.

Such a policy is not only good for the area, it is also good business policy. Indeed, it would be contrary to Fannie Mae's own interest to sell properties at deep discounts, as such sales further reduce the market values of similar homes in the neighborhood. This would reduce the value of our remaining REO inventory in the area, and further encourage defaults on other mortgages which we might own in the area.

4. Q: A separate criticism of federal property disposition is that government entities have had no coordinated strategy. What efforts has your agency made to coordinate property disposition activities with those of other federal agencies and federal government-sponsored entities? What types of additional coordination would you recommend? What would be the benefits? What, if any, obstacles -- legislative or otherwise -- prevent or hinder such coordination?

A: There is informal coordination on marketing strategy, selling techniques, discussion of problems in specific markets, financing terms and other matters of common concern among Fannie Mae, HUD, VA and other institutional sellers of property. Most coordination is at regional and local levels. The level of coordination has been effective in meeting the needs of the institutions involved.

Institutions are structured differently, serve different market groups, and accordingly, have different market goals. A more aggressive approach to coordination, therefore, might be counter-productive.

5. Q: Under what circumstances might the potential loss on a foreclosed property be so great that it would be more advantageous for the federal government to hold on to that piece of property?

A: It might be advantageous to hold on to a property if the stream of rental income were adequate to offset the costs of maintenance and overhead, and future appreciation were expected to cover holding costs and justify the risks of long term holding. It might also be beneficial to retain a two to four unit property and rent the units if the income stream made the properties more attractive to potential investors. Fannie Mae currently has several hundred properties rented in the oil basin.

6. Q: How might a public, for-profit entity be helpful in the management and disposition of government-acquired foreclosed properties? What would be the advantages and disadvantages of creating such an entity?

A: Fannie Mae's responsibilities to shareholders and the potential losses associated with foreclosures require that management exercise substantial direct control over the property disposition process. Control would include: strategies for selling or holding properties in a given market, marketing and financing techniques, and staffing levels.

It should be noted that a number of private firms currently provide management and disposition services on a fee basis.

We do not believe a public for-profit entity would serve any need that is not currently being fulfilled.

7. Q: **The attached New York Times article of April 28, 1987, reports that the Houston Housing Authority has purchased 207 homes repossessed by the FHA to use as low-income apartments. Should this activity be expanded? How could your agency better target the disposition of foreclosed properties to benefit low- and moderate-income citizens.**

A: Last year, Fannie Mae created the Office of Low- and Moderate-Income Housing to increase housing opportunities for our neediest citizens. The REO held by Fannie Mae, other financial institutions, and government agencies represents a potentially valuable source of affordable housing for lower-income home buyers. In a number of cities in which we operate community lending programs, we are encouraging the use of REO as a supply of affordable housing.

We are actively expanding our community lending programs, in which we provide primary mortgage financing, in connection with subsidized secondary financing provided by a state, city or or nonprofit organization. Through these programs, low- and moderate-income home buyers, who would otherwise be priced out of the market, can obtain mortgages. We emphasize the rehabilitation of vacant and abandoned houses--often VA and FHA foreclosures--in targeted neighborhoods. We have committed nearly $100 million to these programs since the beginning of 1987.

We also have worked with state and local housing finance agencies to reduce the cost of mortgages financed with tax-exempt bonds. This has included private placement purchase of tax-exempt mortgage revenue bonds, which reduces the agencies' issuing costs, thus allowing them to pass along the savings to first-time home buyers.

In this regard, the Houston Housing Finance Corporation and Fannie Mae recently announced a $50 million mortgage revenue bond issue to provide low interest rate mortgage financing for 1,000 Houston families. Of that $50 million, $16 million will be dedicated to the purchase of foreclosed homes. These properties are currently owned by FHA, VA, HUD, banks, savings and loans, Fannie Mae and other institutions.

Additionally, we are exploring the possibility of selling some of our REO to public housing authorities for use as scattered site public housing.

8. Q: **To what extent could your agency's response to the Texas experience make it more difficult for low- and moderate-income families to buy homes in the future?**

A: Fannie Mae's commitment to serve all geographic areas throughout the economic cycle will not change. Indeed, when the energy belt experienced a severe economic downturn in 1986, we were one of the few companies that remained in that market.

In 1986 and 1987, Fannie Mae purchased approximately $7 billion in mortgages in Texas, assisting over 107,000 Texas home buyers and homeowners in financing their mortgages. We also purchased $136 million of mortgage revenue bonds in Texas during 1987, which will provide financing for approximately 1,720 predominantly first-time home buyers.

As noted above, we recently closed an innovative transaction with the Houston Housing Finance Agency, in which Fannie Mae is providing funds at a specially reduced interest rate to help finance the sale of REO in that market to low- and moderate-income home buyers.

9. Q: (a) **How soon after an agency loan goes into default does the agency receive notice of the default?**

A: Fannie Mae receives notice of a delinquency in the reporting period following the day on which the loan becomes 31 days delinquent.

Q: (b) **What actions are taken by the agency upon receipt of such notice?**

A: Actions are taken by servicers in Fannie Mae's behalf and include:

- A payment reminder notice is mailed to the mortgagor between the 7th and 10th day of the delinquency.
- A late payment notice is mailed to the mortgagor if payment is not received on the 17th day after the due date.
- Phone calls to the mortgagor between the 17th and 20th days of the delinquency.
- Individual letters to the mortgagor after the 20th day of the delinquency.

- A face-to-face interview with the mortgagor between the 50th and 60th days of the delinquency.

Q: (c) What does the agency do to provide loan servicing and financial counseling to borrowers in default on such loans?

A: Fannie Mae has several types of special relief provisions to help qualified mortgagors who are delinquent or who may become delinquent because of circumstances beyond their control. Our servicers are required to have a servicing system that includes counseling procedures to advise mortgagors on avoiding and curing delinquencies. Our servicers must be familiar with the terms of our special provisions, government programs that can assist mortgagors in resolving delinquencies and counseling agencies that might help mortgagors with debt management. Our special provisions to assist qualified mortgagors include:

- Special forbearance to reduce or suspend payments for specified periods in cases involving illness, death, natural disasters, unavoidable reductions in income and other circumstances beyond the control of the mortgagor.
- Temporary indulgence in cases where sale or rental of the property is pending, insurance settlement is being negotiated, agency assistance is being arranged, or other circumstances where additional time is needed.
- Military indulgence under provisions of the Soldier's and Sailor's Relief Act of 1940.
- Modification that may provide for changes in the terms of the mortgage to permit extension of time, reamortization, or other justifiable relief.

10.Q: What special steps are taken in areas such as Houston where your agency has acquired sizeable inventories of foreclosed properties, with respect to --

(a) loan servicing;

(b) property acquisition; and

(c) property disposition?

A: Fannie Mae has modified many loans in distressed market areas, such as, Houston, Alaska, and areas of Oklahoma, Colorado, Louisiana and other states and, thereby, precluded foreclosures. We have directed lenders to work closely with qualified mortgagors to avoid foreclosure whenever possible.

We opened offices in Houston, Alaska and Oklahoma City in order to provide timely and effective management of the acquisition and disposition of properties. Additionally, we have developed a network of brokers and repair contractors to assist us in selling REOs. By maintaining liaison at the local level, we are able to be sensitive and more responsive to the varying needs of each market.

11.Q: **What has your agency done to educate real estate agents regarding, and to increase their participation in your property disposition program?**

A: We conduct seminars and training programs, participate in Real Estate Board programs, and maintain frequent contact with brokers.

12.Q: **What is your agency's policy regarding:**

(a) Interest rate levels on agency financing offered on foreclosed properties?

A: We provide financing at market rates whenever possible. In some distressed markets, we have provided step-rate and special 3 percent down payment financing enabling many low- and moderate-income buyers to purchase a home.

(b) Down payment requirements on sales of foreclosed properties?

A: We generally require down payments under our standard underwriting requirements. However, in some distressed areas we have accepted lower down payments of 3 percent for owner-occupant buyers.

(c) Use of auctions to sell agency-acquired foreclosed properties?

A: Auctions have been used sparingly in selected markets. Auctions were used to dispose of less than 12 percent of our properties in the last year. Auctions have been used primarily in weak markets to promote awareness and interest of the opportunities available to the public for purchase of foreclosed properties.

(d) Rental of agency-acquired foreclosed properties?

A: Determination as to whether to lease or sell properties is dependent upon local market conditions. (See response to question 5.)

(e) Retaining a percentage of the equity in such properties when they are sold by means of agency financing?

A: We have not financed any acquired properties on a participation basis.

13.Q: **What steps is your agency taking to prevent or minimize the impact which a "Houston-like" -- i.e. economically depressed -- market could have on it?**

A: Our underwriting guidelines strike a delicate balance between providing affordable funds to home buyers and managing credit risk. We want to reach the widest possible universe of creditworthy borrowers while maintaining standards that assure investor confidence in our mortgages and in the company itself. Otherwise, we defeat our purpose by compromising our future ability to help borrowers. If investors lose confidence, they will commit less money and demand higher yields to compensate them for higher risk. Ultimately, home buyers will pay the bill in the form of higher interest rates. Also, we do no favor to home buyers--especially low-, moderate- and middle-income families--if we saddle them with obligations they cannot carry.

In 1985, Fannie Mae--among many other financial institutions--experienced mounting delinquencies. In response, we tightened the income and credit requirements for loans with low borrower equity. We also discovered that the "payment shock" potential of uncapped adjustable-rate mortgages (ARMs) was a major cause of delinquency and default, and we discontinued purchasing ARMs without rate caps and ARMS with graduated payment features.

Finally, we reduced other high risk factors in connection with low-equity loans by limiting the use of "buydowns," strengthening the rules on down payments in addition to funds received as a gift toward the purchase of a home.

14.Q: **When and how often will an agency-acquired foreclosed property be appraised?**

A: Immediately upon notice of acquisition (receipt of mailgram) and, additionally, at least every six months.

SPECIFIC

Please answer the following questions with data for each of the past five years and the current period, and differentiate between the types of foreclosed properties (i.e. percentage of single-family, multifamily, condominium, etc.) that your agency has held.

15.Q: **What has been the price range of these properties? How many foreclosed properties has your agency held in each state (be specific)? What percentage of the total number of foreclosed properties -- private and government-owned -- in each state has your agency's portfolio represented?**

A: We do not have all data requested by state nor for the past five years. Most of our summary reports are compiled on a regional basis. The available data are shown below.

Our average investment per property at the time of foreclosure has been less than $70,000.

The number of foreclosed properties held in our inventory has been:

1984	1985	1986	1987
5,275	8,375	9,224	9,434

We do not have data on our share of foreclosures in various markets.

16.Q: **What has been the average loss per property?**

A: Our average cost per case for 1987 was $14,000.

17.Q: **What has been the average holding time from foreclosure to disposition? What are the various types of cost associated with this holding time?**

A: Holding time averages 7 months. The costs of holding a property include loss of use of funds, real estate taxes and insurance. Maintenance costs include recurring repairs and sustaining measures, such as, lawn and ground care, painting and replacement of worn items, heating to preclude damage to pipes from freezing, and security against vandalism.

18.Q: **What percentage of the unpaid principal balance are you able to recover in Texas? In the country as a whole?**

A: This information is confidential business information and cannot be made available because of SEC and New York Stock Exchange disclosure requirements.

19.Q: **Describe the various processes your agency has used to dispose of property. What is currently the most favored method? Why?**

A: Fannie Mae has used the following processes to dispose of properties:

- o Retail sales through established real estate brokers.
- o Retail sales through brokers serving as asset managers.
- o Auction sales through auctioneers.
- o Bulk sales through brokers or directly to buyers.
- o Reliance on lenders to dispose of acquired properties.

The preferred method is retail sales through established brokers, as this method provides the greatest return on our investment.

20.Q. **To what extent are properties repaired prior to being sold? What is the average amount per property spent on such repairs?**

A. Fannie Mae pursues a vigorous repair and maintenance program to prepare its acquired properties for disposition. We find that repairs reduce holding time and result in increased sales proceeds. Data on the average amount spent per property is confidential business data, and cannot be made available because of SEC and New York Stock Exchange disclosure requirements.

21.Q: **What sales incentives are offered? What finance mechanisms are used? What finance packages are offered?**

A: We pay broker fees customary for the local area. Occasionally, we have provided special incentives for specified time periods. We have provided special financing in selected markets for specified periods. Sales promotions are also used.

The standard Fannie Mae financing programs are available for financing the purchase of REOs in all areas of the country. Special financing with lower down payments and step-rate financing has been made available in distressed markets.

22.Q: **What do the buyer profiles look like? What protections are there against speculative purchasing.**

A: We do not have a formal profile of the buyers of our REOs. The available information indicates that most are purchased by owner-occupants.

Our experience has shown that speculators to purchase properties that are priced below market--for quick sale, or because of need of repair. We have a very aggressive repair and maintenance program as described above, and price our properties at market to encourage owner-occupant rather than investor purchases.

STATEMENT OF CAPTAIN WILLIAM H. BOWLER

MARCH 4, 1988

GOOD MORNING, I AM CAPTAIN WILLIAM H. BOWLER OF THE ARMY MEDICAL SPECIALIST CORPS. I AM PRESENTLY ASSIGNED TO THE DWIGHT DAVID EISENHOWER ARMY MEDICAL CENTER LOCATED AT FORT GORDON, GEORGIA. SEATED NEXT TO ME IS MY ATTORNEY, CPT DARYL B. MAGID OF THE ARMY JUDGE ADVOCATE GENERAL'S CORPS, ASSIGNED TO THE LEGAL ASSISTANCE OFFICE, OFFICE OF THE STAFF JUDGE ADVOCATE, FORT GORDON, GEORGIA.

I ENLISTED IN THE U.S. ARMY IN FEBRUARY OF 1980, AFTER GRADUATING CUM LAUDE FROM SPRINFIELD COLLEGE WITH A BACHELOR OF SCIENCE DEGREE IN PHYSICAL EDUCATION. I ENTERED ON ACTIVE DUTY IN NOVEMBER OF 1980 AT THE RANK OF PRIVATE FIRST CLASS. I COMPLETED BASIC TRAINING AT FORT LEONARD WOOD, MISSOURI AND WAS SELECTED AS TRAINEE OF THE CYCLE. I COMPLETED MY ADVANCED INDIVIDUAL TRAINING AT FORT SAM HOUSTON, TEXAS, WHERE I WAS CHOSEN AS THE TOP STUDENT IN THE CLASS. FIVE DAYS AFTER GRADUATING FROM AIT I RECEIVED A DIRECT COMMISSION AS A SECOND LIEUTENANT IN THE MEDICAL SERVICE CORPS. AFTER GRADUATING FROM THE AMEDD OFFICER BASIC COURSE, I WAS ASSIGNED TO FORT RICHARDSON, ALASKA WHERE I SERVED AS A MEDICAL PLATOON LEADER AND THEN AS A BRIGADE MEDICAL OPERATIONS OFFICER. I WAS THEN SELECTED FOR THE U.S. ARMY-BAYLOR MASTERS DEGREE PROGRAM IN PHYSICAL THERAPY AND TRANSFERRED TO FORT SAM HOUSTON, TEXAS. AFTER COMPLETING THE PROGRAM AND OBTAINING MY MASTERS DEGREE, I SERVED AS A STAFF PHYSICAL THERAPIST FOR FOUR MONTHS BEFORE TRANSFERING TO FORT GORDON WHERE I PRESENTLY SERVE AS A STAFF PHYSICAL THERAPIST.

IN NOVEMBER OF 1984 THE ARMY TRANSFERRED MY FAMILY AND ME FROM ALASKA TO SAN ANTONIO, TEXAS. I WAS ANXIOUS TO GET MY FAMILY SETTLED IN A HOME IN A SAFE RESIDENTIAL NEIGHBORHOOD BEFORE I STARTED IN THE ARMY-BAYLOR PROGRAM FOR PHYSICAL THERAPY. WE IMMEDIATELY BEGAN TO LOOK FOR A HOME TO RENT AS SOON AS WE ARRIVED IN THE AREA. A REAL ESTATE AGENT WAS HELPING US LOCATE A HOME FOR US TO RENT. THE AGENT BROUGHT US TO THE SUNRISE SUBDIVISION WHICH WAS A NEWLY DEVELOPED SUBDIVISION. THE AGENT BROUGHT US TO A MODEL HOME WHERE WE WERE INTRODUCED TO AN AGENT FOR RAY ELLISON HOMES, INC. WE CLEARLY STATED OUR INTENTION OF RENTING A HOME. WE ASKED THE RAY ELLISON HOMES, INC. REPRESENTATIVE WHETHER THERE WERE ANY RENTAL HOMES IN THE SUBDIVISION. HE TOLD US THERE WERE NONE. WE RESTATED OUR PLAN TO RENT A HOME. THE RAY ELLISON HOMES, INC. REPRESENTATIVE THEN TOLD US IT WOULD BE WISER TO PURCHASE A HOME BECAUSE IT WOULD APPRECIATE IN VALUE AT AN ANNUAL RATE OF 12%. HE ALSO TOLD US THAT IT WOULD BE EASY TO SELL BECAUSE OF THE PROXIMITY TO THE MILITARY INSTALLATIONS. HE ALSO TOLD US THAT IF WE MOVED AWAY AND CHOSE TO RENT THE HOME IT WOULD BE VERY EASY TO DO THIS BECAUSE THERE WERE NO OTHER RENTALS IN THE AREA. BECAUSE OF THESE MISREPRESENTATIONS WE WERE DISSUADED FROM OUR PLAN OF RENTING A HOME. THE RAY ELLISON HOMES, INC. REPRESENTATIVE CONVINCED US TO USE OUR VA GUARANTEED LOAN SINCE WE WOULD NOT NEED A DOWN PAYMENT, AND FURTHERMORE, THAT THE VETERANS ADMINISTRATION WOULD NOT GUARANTEE A LOAN FOR THE FULL PURCHASE PRICE UNLESS THE VA COULD GUARANTEE TO US THAT THE HOME WAS WORTH AT LEAST AS MUCH AS THE PURCHASE PRICE.

INITIALLY WE WERE PLEASED WITH OUR HOME. IT WAS OUR FIRST MAJOR

PURCHASE AND WE FELT REASSURED BY THE REPRESENTATION OF THE RAY ELLISON HOMES, INC. AGENT THAT THE VA WOULD NOT HAVE GUARANTEED OUR LOAN UNLESS THEIR APPRAISERS WERE SURE IT WAS WORTH AT LEAST AS MUCH AS THE PURCHASE PRICE. UNFORTUNATELY OUR SATISFACTION WAS SHORT LIVED. LESS THAN ONE MONTH AFTER MOVING INTO THE HOME WE BEGAN TO DISCOVER CONSTRUCTION DEFECTS. WE FOUND PROBLEMS SUCH AS WALLS HEAVING, DOORS SHIFTING AND STRESS FRACTURES IN MANY OF THE WALLS. THESE PROBLEMS CONTINUED UNRESOLVED FOR THE ENTIRE NINETEEN MONTHS THAT WE LIVED IN OUR HOME.

SHORTLY AFTER MOVING INTO OUR HOME WE GRADUALLY BECAME AWARE OF THE LARGE NUMBER OF EPIC RENTAL PROPERTIES IN OUR SUBDIVISION. THIS WAS VERY DISTURBING TO US, NOT ONLY BECAUSE WE REALIZED THAT THE RAY ELLISON HOMES, INC. REPRESENTATIVE HAD LIED TO US, BUT MORE SO BECAUSE FOR THE FIRST TIME WE REALIZED THAT OUR VA HOME APPRAISAL WAS IN ERROR AND THAT OUR TREMENDOUS RELIANCE UPON IT AND THE ULTIMATE SAFETY OF OUR INVESTMENT WERE UNFOUNDED. ULTIMATELY WE LEARNED THAT THE DEVELOPER OF THE SUBDIVISION, RAY ELLISON HOMES, INC., HAD SECRETLY AGREED WITH EPIC THAT ONLY ONE EPIC RENTAL SIGN WOULD BE DISPLAYED ON ANY ONE STREET. IN HINDSIGHT WE ARE NOW ABLE TO SEE HOW WE WERE DUPED INTO THINKING THERE WERE NO RENTAL HOMES AVAILABLE, AND THEREBY MANEUVERED INTO BUYING A HOME, HOWEVER, IT IS STILL DIFFICULT AND PAINFUL TO CONSIDER THAT THE VETERANS ADMINISTRATION COULD HAVE GUARANTEED OUR LOAN BASED ON A FRAUDULENT APPRAISAL AND TO THIS DAY HAS NOT PROVIDED US WITH ANY RELIEF. ANOTHER TACTIC THE BUILDER USED TO CREATE A FALSE SENSE OF URGENCY WAS TO PLACE SOLD SIGNS IN FRONT OF THE LARGE NUMBERS OF HOMES THAT WERE BEING DUMPED FROM THEIR INVENTORY AND ADDED TO THE SWELLING INVENTORY OF EPIC HOMES. MANY OF THESE EPIC HOMES WERE VACANT AND WOULD HAVE BEEN QUITE SUITABLE FOR OUR NEEDS.

THE DISSATISFACTION AMONG HOMEOWNERS BECAME SO WIDESPREAD THAT IT WAS A REGULAR TOPIC OF CONVERSATION BETWEEN NEIGHBORS AND AQUAINTANCES. ALONG WITH A GROUP OF HOMEOWNERS FROM VARIOUS RAY ELLISON HOMES, INC. SUBDIVISIONS IN THE SAN ANTONIO AREA, WE ORGANIZED FOR THE PURPOSE OF SEEKING A REMEDY TO THE FRAUD THAT HAD BEEN PERPETRATED UPON US. WE QUICKY DETERMINED THAT WE WERE ALL VICTIMS OF THE IDENTICAL FRAUDULENT SCHEME, AND THAT WE WOULD NEED LEGAL HELP TO RECOVER THE LOSSES WE HAD SUFFERED.

AT THIS TIME WE BEGAN TO MAKE WRITTEN REQUESTS ASKING THE VA TO SEND US A COPY OF OUR APPRAISAL. WE MADE REPEATED REQUESTS FOR OUR APPRAISAL OVER A LONG PERIOD OF TIME. IT WASN'T UNTIL WE THREATENED TO WRITE OUR CONGRESSMAN, THAT OUR APPRAISAL WAS FINALLY MAILED TO US. UPON RECEIPT OF OUR APPRAISAL WE BECAMED QUITE CONCERNED WHEN WE NOTED THE BLATANT ERRORS THAT IT CONTAINED. THE ORIGINAL AMOUNT OF THE APPRAISAL WHICH WAS TYPED ON THE FORM HAD BEEN CROSSED OUT AND IN ITS PLACE A HIGHER PRICE WAS WRITTEN BY HAND. STANDING ALONE THIS MAY NOT APPEAR TO BE SUFFICIENT EVIDENCE TO DETERMINE FAULT AND OR FRAUD IN THE APPRAISAL PROCESS, HOWEVER, AS SUBDIVISION REPRESENTATIVES WE HAD THE OPPORTUNITY TO SEE LARGE NUMBERS OF APPRAISALS. MOST, IF NOT ALL OF THE APPRAISALS THAT WE SAW HAD CHANGES MADE IN A SIMILAR MANNER. SOME OF THE CHANGES INFLATED THE VALUE OF THE HOME MORE

THAN $10,000.00.

MOST, IF NOT ALL OF THE APPRAISALS ALSO STATED THAT THE NEIGHBORHOODS INVOLVED CONTAINED OVER 90% OWNER OCCUPIED SINGLE FAMILY RESIDENCES. WE ALSO LEARNED THAT EXCESS HOMES IN MOST RAY ELLISON HOMES, INC. SUBDIVISIONS WERE SOLD TO EPIC ON A MONTHLY BASIS, AND THAT NEARLY 1/4 OF THE HOMES IN SUNRISE AND OTHER RAY ELLISON HOMES, INC. SUBDIVISIONS WERE OWNED BY ABSENTEE LANDLORDS. THE APPRAISAL ALSO STATED THAT RENTAL PRICES IN THE AREA RANGED FROM $420-$625, WHILE AT THAT VERY TIME EPIC WAS OFFERING RENTAL HOMES FROM $350-$375.

COMPARABLE HOMES USED IN THE APPRAISAL CONSISTED OF ONE EPIC RENTAL PROPERTY AND A RESIDENTIAL HOME ON A STREET WITH SIX EPIC RENTAL PROPERTIES. THE APPRAISAL FAILED TO DISCLOSE THAT ONE COMPARABLE SALE WAS TO EPIC AND THAT THE OTHER COMPARABLE SALE WAS ON A STREET WITH SIX EPIC PROPERTIES. MORE SIGNIFICANTLY, THE APPRAISAL FAILED TO DISCLOSE THAT THERE WAS A DOCUMENTED PRACTICE OF RAY ELLISON HOMES, INC. PAYING LARGE REBATES, UP TO 25% OF THE CONTRACT PRICE, TO EPIC IN EACH OF THE TRANSACTIONS. THEREFORE, OUR APPRAISAL WAS BASED ON THE FULL FACE VALUE OF THE COMPARABLE SALE, TOTALLY IGNORING THE LARGE REBATE PAID BY THE SELLER TO THE BUYER.

WE TRIED MANY DIFFERENT WAYS TO RESOLVE THE ESCALATING PROBLEMS. WE CONTACTED THE BUILDER BY PHONE AND THROUGH LETTERS. WE REPEATEDLY TELEPHONED AND CORRESPONDED WITH THE VETERANS ADMINISTRATION OFFICES IN SAN ANTONIO, HOUSTON AND WASHINGTON D.C. WE LEARNED THAT THE REAL ESTATE BROKER, THE MORTGAGE LOAN ORIGINATOR, THE HAZARD INSURANCE COMPANY, AND THE ESCROW CLOSIING AGENT WERE ALL OWNED AND CONTROLLED BY THE DEVELOPER OF THE SUBDIVISION, RAY ELLISON HOMES, INC. WHEN A REPRESENTATIVE FROM THE VA CAME TO INSPECT THE STRUCTURAL DEFECTS IN OUR HOME WE WERE RATHER CONCERNED BECAUSE HE KNEW THE MAN FROM RAY ELLISON HOMES, INC. ON A FIRST NAME BASIS. WE WERE CONCERNED THAT NOT ONLY DID THE DEVELOPER RAY ELLISON HOMES, INC. CONTROL THE SALES, MORTGAGE ORIGINATION AND ESCROW CLOSING PROCESSES, BUT THAT HE ALSO CONTROLLED THE APPRAISAL PROCESS.

IN JUNE OF 1986 I RECEIVED ORDERS TO TRANSFER TO FORT GORDON, GEORGIA. IT WAS THEN THAT OUR WORST FEARS WERE REALIZED. WE LISTED OUR HOME OUR HOME FOR SALE AND FOR RENT WITH A LOCAL REALTOR. WE LEFT SAN ANTONIO WITH A VACANT HOUSE THAT NOBODY WANTED TO BUY OR RENT, AND RAPIDLY DISAPPEARING BANK BALANCE AS WE STRUGGLED TO PAY THE EXPENSES OF TWO HOUSES. WE WERE FINALLY ABLE TO FIND TENANTS FOR THE HOUSE, BUT DUE TO THE LARGE NUMBER OF EPIC HOMES FOR RENT FOR AS LITTLE AS $350.00 PER MONTH WE WERE UNABLE TO RENT OUR HOUSE FOR ANYTHING CLOSE TO THE MONTHLY EXPENSES OF OVER $600.00 PER MONTH. WE HAVE NOT HAD A TENANT FOR MANY MONTHS NOW SO THE PROBLEM IS WORSE.

OUR DREAM HOME WAS BECOMING A NIGHTMARE. OUR HOUSE HAS BEEN OFFERED FOR SALE CONTINUOUSLY SINCE MARCH OF 1986. IN THAT TIME WE RECEIVED ONE OFFER ON THE HOUSE. THE OFFER CALLED FOR US TO PAY OVER $4000.00 TO THE BUYER TO TAKE THE HOUSE FROM US, HOWEVER WE WOULD REMAIN LIABLE FOR THE MORTGAGE LOAN. OUR ATTORNEY, CAPTAIN MAGID, ADVISED US THAT MANY SELLERS IN OUR DESPERATE CIRCUMSTANCES

HAD ACCEPTED SIMILAR OFFERS ONLY TO FIND THAT THE BUYER HAD DISAPPEARED WITH THE MONEY LEAVING THE SELLER A FEW THOUSAND DOLLARS POORER AND WITH THE SAME UNMANAGEABLE MORTGAGE DEBT. WE REMAIN WILLING TO SELL OUR HOUSE USING ANY FINANCE PLAN A BUYER MAY DESIRE, PROVIDED THAT WE WILL BE RELEIVED OF THE MORTGAGE LIABILITY. KNOWING THAT WE BOUGHT THE HOUSE FOR FAR MORE THAN EPIC WAS PAYING (AFTER DEDUCTING THE REBATE PAID BY THE BUILDER TO EPIC) WE REALIZE THAT IT IS NEARLY IMPOSSIBLE FOR US TO SELL THE HOUSE. WE HAVE RECEIVED NOTICE THAT WE WILL LOSE OUR HOUSE TO FORECLOSURE ON APRIL, 5 1988. AT THIS TIME VA APPRAISERS NOW KNOW WHAT THEY SHOULD HAVE KNOWN THEN, THAT OUR HOME IS WORTH ABOUT $30,000.00 LESS THAN WHAT WE PAID FOR IT AND, LIKEWISE, ABOUT $30,000.00 LESS THAN WHAT WE WILL OWE TO THE VA AFTER THE FORECLOSURE. WE HAVE DONE EVERYTHING IN OUR POWER TO HONOR THE OBLIGATION WE INCURRED, REGARDLESS OF THE FRAUD THAT WAS PERPETRATED UPON US. NEVERTHELESS, IT APPEARS THAT WE WILL LOSE OUR HOUSE, OUR LIFE SAVINGS, AND OUR GOOD NAME AND REPUTATION.

THE CREDIT RATING WE HAD WORKED SO HARD TO BUILD HAS BEEN ADVERSELY AFFECTED TO THE EXTENT THAT WE MAY NEVER BE ABLE TO BUY A HOME AGAIN. FURTHERMORE, EVEN IF WE WERE TO SOMEDAY REBUILD OUR CREDIT RATING SO THAT WE COULD OBTAIN A HOME MORTGAGE LOAN, WE WOULD STILL BE DENIED THE OPPORTUNITY TO USE OUR VA CERTIFICATE OF ELIGIBILITY WHICH I HAVE EARNED THROUGH MY MILITARY SERVICE, AND HAVE NOW LOST TO THE APPRAISAL FRAUD I HAVE FALLEN VICTIM TO.

SOMETHING MUST BE DONE TO PREVENT FAULTY AND/OR FRAUDULENT APPRAISALS FROM BEING USED TO AID IN THE PERPETRATION OF A FRAUD AGAINST HOMEBUYERS. WE FEEL STRONGLY ABOUT THIS ISSUE. WE HAVE BORROWED THE MONEY NECESSARY TO TRAVEL HERE TO TELL YOU HOW APPRAISAL ABUSES AFFECT REAL PEOPLE. WE RECOGNIZE THAT IT MAY BE TOO LATE TO OFFER US ANY REMEDY, BUT WE WILL RECEIVE SUFFICIENT SATISFACTION IF WE LEARN THAT OUR TESTIMONY HAS HELPED IN ANY WAY TO PREVENT FUTURE HOMEBUYERS FROM SUFFERING THROUGH THE TRAGEDY THAT WE HAVE HAD TO ENDURE. THANK YOU VERY MUCH.

Form Approved OMB No. 2900-0045

RESIDENTIAL APPRAISAL REPORT

HUD Section of Act

1. CASE NUMBER ▶ 580367-5,15,33

2. PROPERTY ADDRESS (Include ZIP Code and county) 4025
(4233) 4001/Sunrise Bluff Drive
6002 Sunrise Bend Drive
San Antonio, Texas 78244
6066, 6030 Sunrise Bend Drive
6102 Sunrise Crest Drive

3. LEGAL DESCRIPTION 32,62,71,74
Lots 31/27,78 Blk. % 10
Sunrise Subd., Unit #8
Bexar County, Texas 78244

4. TITLE LIMITATIONS AND RESTRICTIVE COVENANTS
Rest. to be filed for record in Bexar County Deed of Records, 12' Elec., Tele., Cable T.V. easement
5. ☐ CONDOMINIUM 2 ☐ PLANNED UNIT DEVELOPMENT

6. LOT DIMENSIONS 29.44 x 125.33 x 100.95 x 36.26 x 149.88 See 1843-B for other lot sizes.
1 ☐ IRREGULAR SQ/FT 2 ☐ ACRES

NAME AND ADDRESS OF FIRM OR PERSON MAKING REQUEST/APPLICATION (Include ZIP Code)
Texas Homestead Mortgage Company
PO Box 13100
San Antonio, Texas 78201

Plan # A-1152 RA See 1843-B for other elevations.

HUD USE ONLY: CONTRACT SALES PRICE ▶ | SPEC. ASSESSMENTS ▶ | DATE | CLOSING COSTS ▶

HUD USE ONLY ⟶ CENSUS TRACT ▶ | LOCATION CODE ▶

7. UTILITIES (✓) ▶ ELEC / GAS / WATER / SAN SEWER: 1. PUBLIC ✓ ✓ ✓ ✓ — 2. COMMUNITY — 3. INDIVIDUAL

8. EQUIP ▶ 1 ☒ RANGE/OVEN 2 ☒ REFRIG 3 ☒ DISHWASHER 4 ☒ CLOTHES WASHER 5 ☐ DRYER 6 ☒ GARBAGE DISP 7 ☒ VENT FAN 8 ☒ W/W CARPET 9 ☐

9. BUILDING STATUS ▶ 1 ☐ PROPOSED 2 ☐ SUBSTANTIAL REHABILITATION 3 ☐ UNDER CONSTRUCTION 4 ☐ EXISTING 5 ☐ ALTERATIONS, IMPROVEMENTS OR REPAIRS

10. BUILDING TYPE ▶ 1 ☒ DETACHED 2 ☐ SEMI DETACHED 3 ☐ ROW 4 ☐ APT. UNIT

11. FACTORY FABRICATED? ▶ 1 ☐ YES 2 ☒ NO

12A. NO. OF BUILDINGS 1 — 12B. NO. OF LIVING UNITS ▶ 1

13A. STREET ACCESS 1 ☒ PRIVATE 2 ☐ PUBLIC — 13B. STREET MAINT. 1 ☒ PRIVATE 2 ☐ PUBLIC

14. STRUCTURE ▶ 1 ☒ FRAME 2 ☐ MASONRY 3 ☐ CONCRETE

15. DESCRIPTION (Complete only one item) ▶ 7. ☐ SPLIT FOYER 8. ☐ BI LEVEL 9. ☐ SPLIT LEVEL — OTHER (Enter No. of Stories) ▶ 1.0

16. UNDERGROUND WIRE? ▶ 1. ☒ YES 2. ☐ NO

17. CONSTR. WARRANTY INCLUDED? ▶ 1. ☐ YES 2 ☒ NO

18. NEIGHBORHOOD DATA

A. CHECK ONE: ☐ URBAN ☒ SUBURBAN ☐ RURAL

B. PRESENT LAND USE: SFR

C. ANTICIPATED LAND USE: SFR

D. BUILT UP ▶ 75 %
E. OWNED ▶ 92 %
F. RENTED ▶ 8 %
G. VACANT ▶ 9 %

H. TYPICAL RENT ▶ $420-625 /MO.

I. TYP. BLDG. AGE ▶ UC-2 YEAR(S)

J. PRICE RANGE ▶ $44,000. - $65,000.

19. BUILDING DATA

ITEM	DESCRIPTION	COND. (Observed)
FOUNDATION	SLAB PROPOSED	F
ROOF	CS	F
EXT. WALLS ▶	HB	F
INT. WALLS	SR	F
FLOORS	SV/CPT	F
HTG. SYSTEM ▶	EHP	F
PLUMBING	40 GAL WH	F
INSULATION	R-11,13,19,30	F
ELEC. (Amps)	ROMEX	F

1. 0 % BSMT. 2 ☒ SLAB 3 ☐ CRAWL SP.
1. ☒ CENT. AIR COND. 2 ☐ WALL AIR COND. NO. OF UNITS
1 ☒ FIREPLACE 2 ☐ REC. ROOM 3 ☐

20. OFFSITE IMPROVEMENTS ☒ CURB ☒ SIDEWALK 3. ☐ GUTTER 4. ☐ STORM SEWER

21. STREET SURFACE 2-ASPHALT

22A. FEDERAL FLOOD HAZARD MAP ISSUED? 1. ☒ YES 2 ☐ NO

22B. PROPERTY IN SPECIAL FLOOD HAZARD AREA? ▶ COUNTY 1. ☐ YES 2 ☒ NO 39/

23. EVIDENCE OF ☐ DRY ROT ☐ TERMITES 3. ☐ SETTLEMENT 4. ☐ DAMPNESS 5. ☒ NO EVIDENCE

24. UNIT RATING (Check (✓))

	GOOD	AVG.	POOR
A. GENERAL CONDITION PLANS	X		
B. ROOM SIZES AND LAYOUT	X		
C. ADEQUACY OF CLOSETS/STORAGE	X		
D. KITCHEN CABINETS/WORKSPACE	X		

25. ESTIMATED REMAINING LIFE YEARS: 55 1. ☒ ECONOMIC 2. ☐ PHYSICAL

26. MARKET DATA ANALYSIS

ITEM	SUBJECT PROPERTY	COMPARABLE NO. 1	(+)(-) ADJ.	COMPARABLE NO. 2	(+)(-) ADJ.	COMPARABLE NO. 3	(+)(-) ADJ.
ADDRESS		4155 FRONTIER SUN		5822 CACTUS SUN		5762 COUNTRY SUN	
PROXIMITY TO SUBJ.		SAME SUBDIVISION		SAME SUBDIVISION		SAME SUBDIVISION	
DATA SOURCE		BUILDER		BUILDER		BUILDER	
TYPE OF FINANCING AND SALE PRICE		FHA $59,050.		VA $58,950.		CONV. $64,450.	
ROOM COUNT / TOTAL LIVING AREA (Square feet) (ROOMS / BDRMS / BATH / TOTAL S.F.)	5 / 2 / 2 / 1152	5 / 2 / 2 / 1152	$	5 / 2 / 2 / 1152	$	5 / 2 / 2 / 1152	$
DATE OF SALE		6/84	+475	5/84	+700	5/84	+775
LOCATION	85/1315	85/1315 SIM.		85/1315 SIM.		85/1315 SIM.	
SITE/VIEW	41 x 157	54 x 123 TYP.	-1950	70 x 117 TYP.	-4350	71 x 100 TYP.	-4500
DESIGN AND APPEAL	1.0/HB/GOOD	1.0/HB/GOOD		1.0/HB/GOOD		1.0/HB/GOOD	
CONSTR. QUALITY	GOOD	GOOD		GOOD		GOOD	
AGE/CONDITION ▶	00	84/NEW		84/NEW		84/NEW	
BSMT./BSMT FIN. RMS.	0%	0%		0%		0%	
FUNCTIONAL UTILITY	GOOD	GOOD		GOOD		GOOD	
AIR CONDITIONING	1-CAC	1-CAC		1-CAC		1-CAC	
ENERGY EFFIC. ITEMS	EHP	CEWA		CFWA		CFWA	
STORAGE							
PARKING FACILITIES ▶	2-G ATTACHED	2-G ATTACHED		2-G ATTACHED		2-G ATTACHED	
COMMON ELEMENTS AND MONTHLY ASSESSMENT	BURGLAR ALARM CLG FANS (2)			F		F F	
OTHER (e.g. Fireplace, kitchen equipment, remodeling, etc.)	FP RO,RH,GD,DW,CPT4 PATIO,WD FENCE	E		F F F F		E F E	
TOTAL NET ADJUSTMENT		ENTER (+) OR (-) −	$ 1,475.	ENTER (+) OR (-) −	$ 3,650.	ENTER (+) OR (-) −	$ 3,725.
INDICATED VALUE			$ 57,575.		$ 55,300.		$ 60,725.

2-4

RECONCILIATION

27A. INDICATED VALUE BY MARKET DATA APPROACH ▶ 68,000

27B. INDICATED VALUE BY INCOME APPROACH (If applicable) ECON. MRKT. RENT TIMES GROSS RENT MULTIPL. ▶ $ 550 /MO. x ▶ 105 — 67,750

27C. IND. VAL. BY COST APPROACH (If appl.) (Attach calculations) ▶ 61,375.

28. ESTIMATED LAND VALUE ▶ $ 6,150.

29. LEASE DATA (Complete if applic.) A. ANNUAL GROUND RENT $ CAP. AT % = $ — B. VAL. OF LEASED FEE $ — C. VAL. OF LEASEHOLD EST. $

30. DOES PROP. CONFORM TO APPLICABLE MINIMUM PROPERTY REQUIREMENTS? 1. ☒ YES 2. ☐ NO (If "No," explain in Item 32.)

31. APPRAISAL IS MADE: 1. ☐ AS IS 2. ☒ SUBJECT TO COMPLETION PER PLANS/SPECS 3. ☐ SUBJECT TO REPAIRS, ALTERATIONS

32. ADDITIONAL COMMENTS (Include repairs necessary to make property conform to applicable MPR's, and estimated cost of each. Attach separate sheet if necessary.)

33. FINAL RECONCILIATION/ESTIMATED VALUE ▶ $59,250

60650

8-16-84

NOTE: No determination of reasonable value may be made unless a completed appraisal report is received (38 U.S.C. 1810 (VA ONLY)).

I CERTIFY that (a) I have carefully viewed the property described in this report, INSIDE AND OUTSIDE, so far as it has been completed; that (b) it is the same property that is identified by description in my appraisal assignment; that (c) I HAVE NOT RECEIVED, HAVE NO AGREEMENT TO RECEIVE, NOR WILL I ACCEPT FROM ANY PARTY ANY GRATUITY OR PAYMENT OTHER THAN MY APPRAISAL FEE FOR MAKING THIS APPRAISAL (HUD/VA ONLY); that (d) I have no interest, present or prospective, in the applicant, seller, property, or mortgage; that (e) in arriving at the estimated value I have not been influenced in any manner whatsoever by the race, color, religion, national origin, or sex of any person residing in the property or in the neighborhood wherein it is located. I understand that, if I am a fee appraiser, violation of this certification can result in my removal from the fee appraiser's roster.

34A. SIGNATURE OF APPRAISER (Enter I.D. No. for HUD cases only) Will Harris

34B. DATE 8-3-84

OFFICE USE ONLY (Reviewer's I.D. No. – HUD cases only)

VA FORM 26-1803, NOV 1982
HUD 92800-3 FmHA 1922-8

NOTE: ON HUD APPRAISALS, SEND THIS COPY TO MANAGEMENT INFORMATION SYSTEMS DIVISION, SINGLE FAMILY INSURED BRANCH.

VA/HUD/FmHA FILE COPY 5

STATEMENT OF CAPTAIN DARYL B. MAGID

MARCH 4, 1988

GOOD MORNING, MR. CHAIRMAN, GOOD MORNING MEMBERS OF THE COMMITTEE. I AM CPT DARYL B. MAGID OF THE ARMY JUDGE ADVOCATE GENERAL'S CORPS. I AM PRESENTLY ASSIGNED TO THE LEGAL ASSISTANCE OFFICE OF THE OFFICE OF THE STAFF JUDGE ADVOCATE, FORT GORDON, GA. I AM HERE TODAY PURSUANT TO YOUR WRITTEN REQUEST. I AM ACTING IN MY REPRESENTATIONAL CAPACITY AS AN ATTORNEY FOR MY CLIENTS AND ALSO TO PRESENT EVIDENCE THAT I HAVE DISCOVERED DURING THE COURSE OF THE AFOREMENTIONED REPRESENTATION.

THE TESTIMONY THAT I PRESENT TODAY REPRESENTS MY CONSIDERED PROFESSIONAL OPINIONS AS A LEGAL ASSISTANCE ATTORNEY ENGAGED IN THE REPRESENTATION OF MY CLIENTS, BUT SHOULD NOT BE CONSTRUED TO REPRESENT THE OFFICIAL VIEWS OF THE DEPARTMENT OF THE ARMY NOR ANY OTHER ORGANIZATION THAT I MAY BE ASSOCIATED WITH. FURTHERMORE, I FEEL MORALLY, ETHICALLY AND LEGALLY COMPELLED TO PROVIDE THIS TESTIMONY. THE CODE OF ETHICS FOR GOVERNMENT SERVICE MANDATES THE EXPOSURE OF CORRUPTION WHEREVER DISCOVERED. I HAVE DISCOVERED EVIDENCE OF APPRAISAL ABUSE THAT IS FAR BEYOND MERE INCOMPETENCE. THE EVIDENCE STRONGLY SUGGESTS THAT APPRAISALS HAVE RESULTED FROM UNDUE INFLUENCE AND POSSIBLE CRIMINAL ACTIVITY.

THE APPRAISAL ABUSES THAT HAVE CONTRIBUTED TO THE DEVASTATING FINANCIAL HARDSHIP SUFFERED BY THE BOWLERS, ARE IDENTICAL TO THE APPRAISAL ABUSES THAT HAVE CONTRIBUTED TO THE DEVASTATING FINANCIAL HARDSHIP SUFFERED BY THOUSANDS OF ACTIVE DUTY MILITARY HOMEOWNERS IN THE SAN ANTONIO, TEXAS AREA, ALONE. THE PROBLEMS GENERATED BY THESE APPRAISAL ABUSES HAVE IMPACTED HEAVILY UPON MEMBERS OF THE ARMED FORCES. THIS IS DUE TO THE FACT THAT VA LOANS HAVE ACCOUNTED FOR ABOUT 50% OF ALL NEW HOME SALES IN RECENT YEARS IN THE SAN ANTONIO AREA AS COMPARED TO ABOUT 20% NATIONWIDE. THIS IS LOGICALLY CONSISTENT WITH THE DEMOGRAPHICS OF THE AREA WHICH FEATURES FOUR AIR FORCE BASES IN ADDITION TO FORT SAM HOUSTON. OF THE THOUSANDS OF ACTIVE DUTY SERVICE MEMBERS WHO HAVE SUFFERED DEVASTATING FINANCIAL HARDSHIP AS A RESULT OF THE APPRAISAL ABUSES IN THE SAN ANTONIO AREA, NOT ONE HAD RECEIVED ANY RELIEF FROM ANY AGENCY OF THE FEDERAL GOVERNMENT, UNTIL CONGRESSMEN BARNARD AND BUSTAMANTE WERE ABLE TO GET A RESPONSE FROM THE VA. MY ASSESSMENT OF FEDERAL AGENCY RESPONSE IS BASED UPON MY INTERVENTION ON BEHALF OF MY CLIENTS AND ALSO BASED UPON THE INFORMATION REPORTED TO ME BY LEGAL ASSISTANCE ATTORNEYS FROM ALL OF THE MILITARY INSTALLATIONS IN THE SAN ANTONIO AREA.

AS SOON AS I DETERMINED THE PERVASIVENESS OF THE PROBLEM, I INITIATED COMMUNICATION WITH ALL OF THE MILITARY INSTALLATIONS IN THE SAN ANTONIO AREA. ULTIMATELY, I REALIZED THAT SINCE SERVICE MEMBERS RECEIVE PERMANENT CHANGE OF STATION ORDERS EVERY FEW YEARS, MANY, IF NOT MOST, OF THE VICTIMS HAVE LEFT THE AREA. THIS RAISED THE CONCERN THAT LEGAL ASSISTANCE OFFICES REMOVED FROM THE SAN ANTONIO AREA MAY BE ADDRESSING THE CLIENTS' NEEDS ON A CASE BY CASE BASIS, UNABLE TO RECOGNIZE THE PREVALENCE OF THE PROBLEM, AND THE NEED TO COORDINATE OUR EFFORTS.

TO AID IN THE DELIVERY OF LEGAL ASSISTANCE TO CLIENTS WORLDWIDE, AND TO HELP IDENTIFY THE NUMBER OF VICTIMS, I WROTE A SHORT NOTE WHICH WILL BE PUBLISHED IN THE MARCH EDITION OF THE ARMY LAWYER, A LEGAL PERIODICAL READ MY MILITARY LAWYERS THROUGHOUT THE WORLD. IT IS MY BELIEF THAT THE ANTICIPATED RESPONSE FROM THE AFOREMENTIONED NOTE WILL REVEAL THAT I HAVE UNCOVERED MERELY THE TIP OF THE ICEBERG IN TERMS OF THE NUMBERS OF VICTIMS. THE TEXT OF THE NOTE IN PERTINENT PART IS AS FOLLOWS:

"HUNDREDS OF ACTIVE DUTY MILITARY HOMEOWNERS IN SAN ANTONIO, TEXAS PARTICIPATED AS PLAINTIFFS IN A LAWSUIT AGAINST RAY ELLISON HOMES, INC.. THE COMPLAINT ALLEGED A FRAUDULENT SCHEME OF SELLING HOMES TO THE PLAINTIFFS AT INFLATED PRICES BASED UPON A MISREPRESENTATION THAT THE HOMES WERE LOCATED IN SUBDIVISIONS THAT WERE PRIMARILY OWNER OCCUPIED. THE COMPLAINT FURTHER ALLEGED THAT MANY OF THE UNSOLD HOMES REMAINING IN THE VARIOUS SUBDIVISIONS WERE THEN SOLD IN GROUPS TO INVESTORS FOR USE AS RENTAL PROPERTIES.

THE LITIGATION WAS SETTLED BEFORE TRIAL WITH A MULTIMILLION DOLLAR CASH PAYMENT DIVIDED AMONG HUNDREDS OF PLAINTIFFS. UNFORTUNATELY, THAT WAS INADEQUATE RELIEF. MILITARY HOMEOWNERS FACED WITH PCS ORDERS WERE UNABLE TO SELL THEIR HOMES FOR ANYTHING CLOSE TO THE AMOUNT OWED ON THEIR VA GUARANTEED LOANS. FURTHERMORE, THEY WERE UNABLE TO RENT THEIR HOMES FOR ANYTHING CLOSE TO THEIR MONTHLY MORTGAGE PAYMENT. MANY OF THESE HOMEOWNERS HAVE ALREADY LOST THEIR HOMES TO FORECLOSURE OR ARE PRESENTLY DEFENDING FORECLOSING ACTIONS.

I AM PRESENTLY REPRESENTING A MILITARY COUPLE WHO WERE VICTIMIZED BY THIS SCHEME. RESEARCH INTO THEIR CASE HAS DISCLOSED THE POTENTIAL FOR ADDITIONAL DEFENDANTS, ADDITIONAL THEORIES OF RECOVERY, AS WELL AS NEWLY DISCOVERED EVIDENCE WHICH MAY PROVIDE THE BASIS FOR FURTHER RELIEF. FURTHER DETAILS WILL APPEAR IN A FUTURE EDITION OF THE ARMY LAWYER. MANY LEGAL ASSISTANCE ATTORNEYS ARE LIKELY TO COUNSEL SIMILARLY SITUATED VICTIMS OF THIS SCHEME OR CLOSELY RELATED SCHEMES. LEGAL ASSISTANCE ATTORNEYS WITH SUCH CLIENTS ARE INVITED TO CONTACT 1LT MAGID AT OFFICE OF THE STAFF JUDGE ADVOCATE, LEGAL ASSISTANCE OFFICE, FORT GORDON, GA, 30805, PHONE (404) 791-7813/7812/7883/6673, AUTOVON 780-7813/7812/7883/6673, OR FTS 240-7883/6673."

THE INVESTIGATION I AM CONDUCTING HAS GENERATED SIGNIFICANT NEW EVIDENCE ON AN ALMOST DAILY BASIS. THE INFORMATION I PRESENT TODAY WILL BE SUPPLEMENTED WITH NEWLY DISCOVERED AND POTENTIALLY MORE SIGNIFICANT INFORMATION THAT WILL BE REVEALED THROUGH FURTHER INVESTIGATION. MY INVESTIGATION HAS REVEALED SUFFICIENT EVIDENCE FOR ME TO CONCLUDE THAT THE VA MATERIALLY CONTRIBUTED TO A PROCESS THAT CAUSED HOMEOWNERS TO SUFFER FINANCIAL LOSSES DUE TO HOME PURCHASES BASED ON FAULTY AND/OR FRAUDULENT APPRAISALS.

MY INVESTIGATION HAS FURTHER REVEALED THAT ALL OF THE STATEMENTS MADE HERE TODAY BY CPT BOWLER ARE FACTUAL AND VERIFIABLE. MY INVESTIGATION HAS REVEALED THE FOLLOWING FACTS REGARDING THE RELATIONSHIP BETWEEN EPIC, RAY ELLISON HOMES, INC. AND THE SAN ANTONIO HOUSING MARKET.

HOLMES AND SHAW INCORPORATEDS METRO REPORT, A COMPILATION OF REAL ESTATE TRANSACTIONS IN SAN ANTONIO, REPORTED IN OCTOBER OF 1984 THAT THE 108 HOMES PURCHASED BY EPIC FROM RAY ELLISON HOMES, INC, REPRESENTED OVER 42% OF THE 252 HOMES SOLD BY ELLISON THAT MONTH.

IN 1985, EPIC OWNED APPROXIMATELY 30,000 RESIDENCES. 1/2 OF THE RESIDENCES WERE IN TEXAS, WITH OVER 3000 IN SAN ANTONIO, MOST EPIC HOMES IN SAN ANTONIO WERE PURCHASED FROM RAY ELLISON HOMES, INC. EPIC WOULD BUY ALL OF THE UNSOLD INVENTORY OF ELLISON HOMES ON A MONTHLY BASIS. THIS RELATIONSHIP HAS EXISTED FOR NEARLY TEN YEARS.

EPIC PURCHASED 598 HOMES IN SAN ANTONIO DURING THE FIRST EIGHT MONTHS OF 1985. 564 OF THE 598 HOMES WERE PURCHASED FROM ELLISON. THIS REPRESENTED 31% OF TOTAL ELLISON SALES AND ALSO REPRESENTED 13% OF ALL HOME CONVEYANCES IN THE COUNTY. FROM AUGUST OF 1984 THROUGH JULY OF 1985, ELLISON SOLD 3200 HOMES, 1196 OF THE 3200 HOMES, OVER 37% WERE SOLD TO EPIC.

THESE FACTS HAVE BEEN PRESENTED TO SHOW THE TREMENDOUS LEVERAGE EPIC ENJOYED OVER ELLISON AND ALSO THE TREMENDOUS LEVERAGE EPIC AND ELLISON TOGETHER COULD EXERCISE OVER THE LENDERS AND APPRAISERS DESIROUS OF THIS SUBSTANTIAL BUSINESS.

THE TAIL WAS TRULY WAGGING THE DOG. EPIC WANTED AN INFLATED PURCHASE PRICE ON PAPER TO ACCOMMODATE THE INVESTMENT GOALS OF LIMITED PARTNERSHIP INVESTORS SEEKING 2 FOR 1 WRITE-OFFS. EPIC WAS ABLE TO OBTAIN LARGE CASH REBATES FROM ELLISON BASED ON THEIR RELATIONSHIP. ELLISON COULD AFFORD TO DO THIS BASED ON THEIR DESIRE TO CREATE ARTIFICIALLY HIGH COMPARABLE SALES. TOGETHER WITH THE LOAN ORIGINATORS AND ESCROW AGENTS THAT THEY OWNED AND CONTROLLED THEY WERE ABLE TO UNDULY INFLUENCE THE APPRAISAL PROCESS SO THAT APPRAISERS TOTALLY IGNORED A DOCUMENTED AND WELL ESTABLISHED PATTERN OF PRACTICE OF PAYING REBATES AND CREATING LARGE CONCENTRATIONS OF RENTAL PROPERTIES.

MOST, IF NOT ALL, OF THE VA GUARANTEED ELLISON SALES WERE SUPPORTED BY VA APPRAISALS THAT RELIED ON COMPARABLES THAT WERE EITHER ARTIFICIALLY INFLATED EPIC PURCHASES, OR WERE COMPARABLES THAT RECEIVED THEIR ORIGINAL PRICE JUSTIFICATION BASED ON THIS FAULTY BAROMETER OF ARTIFICIALLY INFLATED EPIC PURCHASES. ENTIRE SUBDIVISIONS CONTAINING HUNDREDS OR THOUSANDS OF HOMES WERE BUILT AND SOLD TO INNOCENT VICTIMS BASED ON THE FRAUDULENT BENCHMARK ESTABLISHED BY THE INITIAL EPIC TRANSACTIONS. EXAMINATION OF NUMEROUS APPRAISALS REVEALS THAT A LIMITED NUMBER OF APPRAISERS RENDERED APPRAISALS ON HUNDREDS, IF NOT THOUSANDS, OF HOMES IN EACH OF THE RELEVANT SUBDIVISIONS. CLEARLY, THESE APPRAISERS WOULD HAVE BEEN AWARE OF THE REGULAR WHOLESALE CONVEYANCES OF HOMES TO EPIC.

THE FRAUDULENCE OF THE APPRAISAL PROCESS REGARDING EPIC TRANSACTIONS AND THE EFFECT ON THE FINANCIAL COMMUNITY HAS BEEN WELL DOCUMENTED IN THE 48TH REPORT BY THE COMMITTEE ON GOVERNMENT OPERATIONS. THEREFORE, I WOULD LIKE TO DRAW YOUR ATTENTION TO THE LOSSES SUFFERED BY REAL PEOPLE, SERVICE MEMBERS IN PARTICULAR. LOSSES CAUSED BY FAULTY AND FRAUDULENT APPRAISALS.

THE BOWLERS AND ALL OF THE OTHER VICTIMS OF THIS FRAUD HAVE SUFFERED MANY LOSSES. THEY HAVE LOST THEIR LIFE SAVINGS TRYING TO KEEP PACE ON THE NEGATIVE CASH FLOW TREADMILL CREATED BY THE FRAUDULENT APPRAISALS. THEY HAVE LOST THEIR EXCELLENT CREDIT RATING EARNED THROUGH YEARS OF HARD WORK AND FINANCIAL RESPONSIBILITY. THE ADVERSE INFORMATION CONTAINED IN THEIR CREDIT HISTORY WILL REMAIN THERE FOR 7 YEARS. THE BOWLERS GOOD NAME AND REPUTATION WILL BE LOST FOREVER, FOR THEY MUST ALWAYS DISCLOSE TO POTENTIAL CREDITORS WHO INQUIRE, THAT THEY HAVE LOST THEIR HOME TO FORECLOSURE.

THE BOWLERS WILL NEVER AGAIN HAVE A VA CERTIFICATE OF ELIGIBILITY. I QUESTION WHETHER THIS REPRESENTS A LOSS TO THE BOWLERS SINCE THE VA CONTRIBUTED TO THE PROCESS THAT DEFRAUDED THEM BY GUARANTEEING THEIR VA LOAN BASED ON A FAULTY APPRAISAL. THIS CONTRIBUTION TO THE PROCESS WAS ESSENTIAL BECAUSE THE TRANSACTION COULD NOT HAVE BEEN CONSUMMATED WITH ANYTHING LESS THAN AN APPRAISAL FOR THE FULL AMOUNT OF THE PURCHASE PRICE.

IF THE BOWLERS LOSE THEIR HOME TO FORECLOSURE ON APRIL 5, 1988, THE VA WILL APPRAISE THEIR HOME AND ASSESS THEM WITH A DEFICIENCY BALANCE WHICH IS EXPECTED TO BE NEARLY $30,000.00. THIS IS THE SAME VA THAT APPRAISED THIS HOME FOR OVER $60,000.00.

THE BOWLERS WILL THEN HAVE THE CHOICE OF ATTEMPTING TO SATISFY THIS ASSESSMENT THROUGH WAGE GARNISHMENTS FOR YEARS TO COME, OR PETITIONING FOR BANKRUPTCY AND SUFFERING THE STIGMATIZATION AND CREDIT IMPAIRMENT THAT WILL PERSIST FOR 10 YEARS.

OTHER CLIENTS HAVE STATED A BELIEF THAT THEY THOUGHT THE VA WAS THERE TO MAKE SURE THEY WOULD NOT BE TAKEN. IT WOULD APPEAR THAT THE VA WAS AN ACTIVE PARTICIPANT IN THIS PROCESS THAT ALLOWED SERVICE MEMBERS TO BE VICTIMIZED.

OTHER VICTIMS OF THIS FRAUD WHO ARE MEMBERS OF THE ENLISTED RANKS IN PARTICULAR HAVE BEEN FORCED TO FORFEIT THEIR MILITARY CAREERS BECAUSE A REENLISTMENT WOULD HAVE RESULTED IN A CHANGE OF DUTY STATION WHICH WOULD LEAVE THE SERVICE MEMBER WITH A HOME THAT CAN NOT BE SOLD OR RENTED. THIS WOULD LEAD TO THE SAME FINANCIAL DISASTER THE BOWLERS HAVE SUFFERED SINCE THEIR DEPARTURE FROM SAN ANTONIO.

THEREFORE, THE SERVICE MEMBER IS FACED WITH THE AWFUL CHOICE OF LOSING HIS CAREER OR LOSING HIS TOTAL NET WORTH AND FINANCIAL FUTURE. ALSO, SERVICE MEMBERS WHO SUFFER FROM THE AFOREMENTIONED FINANCIAL DIFFICULTIES MAY LOSE THEIR SECURITY CLEARANCE WHICH CAN ALSO RESULT IN THE LOSS OF THEIR MILITARY CAREERS.

THESE PEOPLE HAVE BECOME PRISONERS IN THEIR HOMES. HOMES THAT WILL SOON BE SURROUNDED BY THE SLUMS OF TOMORROW AS THE ILL EFFECTS OF VACANT HOMES AND ABSENTEE LANDLORDS PLAGUES ENTIRE SUBDIVISIONS. IT SHOULD ALSO BE NOTED THAT THE MILITARY IS LOSING QUALITY PERSONNEL AS A RESULT OF THIS DILEMMA WHICH PREVENTS SERVICE MEMBERS FROM REENLISTING.

I AM SORRY TO TELL YOU THAT YOU HAVE NOT YET HEARD THE FULL EXTENT OF THE SUFFERING. THE VICTIMS OF THIS FRAUD ARE LIKE WOUNDED ANIMALS WATCHING THEIR PREDATORS STALK THEM, UNABLE TO ESCAPE, AND CONTEMPLATING THEIR IMMINENT DEATH. MANY OF THE VICTIMS OF THE ORIGINAL APPRAISAL FRAUD HAVE ALSO BEEN VICTIMIZED BY WHAT IS KNOWN AS THE EQUITY SKIMMING SCAM.

THE BOWLERS DESCRIBED TO YOU AN OFFER THEY RECEIVED FOR THEIR HOME THAT CALLED FOR THEM TO PAY $4,000.00 TO THE BUYER TO TAKE THEIR HOME FROM THEM, WHILE NOT RELEASING THE BOWLERS FROM THEIR PERSONAL OBLIGATION ON THE MORTGAGE LOAN NOTE.

LEGAL ASSISTANCE ATTORNEYS IN TEXAS AND CALIFORNIA HAVE COUNSELLED MANY VICTIMS OF THIS FRAUD. THESE VICTIMS HAVE LOST THEIR MONEY, THEIR HOMES, AND ARE STILL LIABLE FOR THE DEFICIENCY BALANCE OWED TO THE VA BASED ON THE BUYER'S FAILURE TO MAKE EVEN ONE MORTGAGE PAYMENT.

ONE OF THE MORE ACTIVE PERPETRATORS ON THIS FRAUD IN THE SAN ANTONIO AREA WAS NAMED AS A DEFENDANT IN A LAWSUIT FILED BY THE TEXAS ATTORNEY GENERAL. THIS PERSON IMMEDIATELY RELOCATED TO OCEANSIDE, CALIFORNIA IN THE HEART OF THE MARINE CORPS HOMEOWNERS POPULATION, AND WAS VICTIMIZING MARINES WITHIN DAYS OF HIS ARRIVAL. HE WAS CONVICTED AND SENTENCED TO PRISON, BUT NOT UNTIL AFTER MORE SERVICE MEMBERS WERE VICTIMIZED.

THE TEXAS ATTORNEY GENERAL'S OFFICE RECEIVES ABOUT ONE COMPLAINT PER DAY ON THIS PROBLEM AS OTHERS SEIZE THE OPPORTUNITY TO FURTHER DEFRAUD THE VICTIMS OF THE ORIGINAL APPRAISAL ABUSE. IT IS CLEAR THAT THE ORIGINAL APPRAISAL ABUSE, COUPLED WITH THE NEED FOR MILITARY PERSONNEL TO RELOCATE AND SELL THEIR HOMES, CREATES WELL STOCKED FEEDING WATERS FOR THE EQUITY SKIMMING SHARKS, AND REDUCES THE MILITARY HOMEOWNERS TO NOTHING MORE THAN SHARK BAIT.

THE FINDINGS OF THE HOUSE SUBCOMMITTEE, ON COMMERCE, CONSUMER AND MONETARY AFFAIRS, AS DETAILED IN THE 48TH REPORT FOCUSED ON THE IMPACT TO THE FINANCIAL COMMUNITY. IT IS MY SINCERE HOPE THAT OUR TESTIMONY HERE TODAY WILL CAUSE YOU TO FOCUS ON THE HARDSHIP SUFFERED BY REAL PEOPLE, GOOD PEOPLE LIKE THE BOWLERS, DEFENDERS OF OUR CONSTITUTION. CPT BOWLER IS AN ELDER IN HIS CHURCH, AND TOGETHER WITH HIS WIFE THEY ARE ACTIVE VOLUNTEERS IN THE COMMUNITY.

I WOULD LIKE TO READ TWO SENTENCES FROM A LETTER WRITTEN BY PATRICIA MALONEY, AN ATTORNEY FOR THE 1800 INDIVIDUALS WHO PARTICIPATED IN A LAWSUIT AGAINST RAY ELLISON HOMES, INC.:

"IT HAD ALWAYS BEEN MY UNDERSTANDING THAT THE VA WAS INSTITUTED TO PROTECT FAMILIES SUCH AS THE BOWLERS, WHO ARE AS FINE A GROUP OF INDIVIDUALS AS I HAVE EVER HAD THE GREAT PRIVILEGE OF REPRESENTING. TO THEIR DISMAY, THIS HAS BEEN AN ABYSMAL DISAPPOINTMENT AS WELL."

IN CONCLUDING, I WOULD LIKE TO OUTLINE MY OPINIONS AS TO THE TYPE OF REMEDY THAT SHOULD BE PROVIDED TO VICTIMS OF APPRAISAL FRAUD. FIRST, PLEASE ALLOW ME TO DRAW ON THE WISDOM CONTAINED IN THE AFOREMENTIONED SUBCOMMITTEE REPORTS WHEREIN IT WAS SUGGESTED THAT THERE SHOULD BE A SYSTEMATIC RECOVERY OF LOSSES "FROM REAL ESTATE APPRAISERS, WHEN APPRAISALS PROVE TO BE THE RESULT OF IMPROPER INFLUENCE OR FAILURE TO ADHERE TO ADEQUATE PROFESSIONAL APPRAISAL STANDARDS".

I URGE YOU MOST STRENUOUSLY TO COMPEL AN INVESTIGATION INTO THE THOUSANDS OF FRAUDULENT APPRAISALS DISCUSSED HERE TODAY. THE EVIDENCE CALLS FOR A DEPARTMENT OF JUSTICE PROSECUTION AGAINST THE WRONGDOERS, RATHER THAT AN ATTEMPTED RECOVERY OF THE LOAN GUARANTEE LOSSES FROM THE INNOCENT VICTIMS OF THE FRAUD.

INDEED, THEY ARE VICTIMS, I SUGGEST TO YOU THAT THE APPRAISAL LICENSING SYSTEM SHOULD REQUIRE A NOMINAL FEE TO BE MAINTAINED IN A TRUST TO PROVIDE COMPENSATION TO INDIVIDUAL VICTIMS. THIS COULD OPERATE MUCH LIKE A CRIME VICTIMS COMPENSATION FUND.

I FURTHER SUGGEST THAT 12 U.S.C. SECTION 1709-2, WHICH RELATES TO EQUITY SKIMMING, BE AMENDED TO PROVIDE RELIEF TO THE VICTIMS OF THE CRIME FOR WHICH IT SETS OUT THE PUNISHMENT.

THE REAL ESTATE SETTLEMENT PROCEDURES ACT PROHIBITS THE TRANSFER OF ANYTHING OF VALUE IN EXCHANGE FOR REFERRING HOME SETTLEMENT RELATED BUSINESS. THE TYPES OF RESPA VIOLATIONS, AS DESCRIBED TO YOU TODAY, HELPED CREATE THE NECESSARY ATMOSPHEPIC CONDITIONS THAT ALLOWED THE BOWLERS AND THOUSANDS OF OTHERS TO BE DEFRAUDED. THIS STATUTE, WHICH CALLS FOR FINES OF UP TO $10,000.00 COULD BE AMENDED TO INCLUDE A VICTIMS COMPENSATION FUND.

FINALLY, AND OF MOST SIGNIFICANCE TO THIS COMMITTEE, TO THE VA, AND TO THE VA HOME BUYER, LEGISLATION SHOULD INCLUDE A MANDATE TO THE VA THAT THEIR WAIVER COMMITTEE MUST GRANT FULL WAIVERS AND RESTORATION OF ELIGIBILITY OF BENEFITS TO VICTIMS OF APPRAISAL FRAUD IF THE FRAUD WAS AIDED BY THE VA, OR IF THE VA COULD HAVE REASONABLY DISCOVERED THE FRAUD. ALSO, THESE WAIVERS SHOULD BE GRANTED EN MASSE TO ALL BORROWERS FOUND TO BE VICTIMS OF THE WIDESPREAD FRAUD DISCUSSED TODAY. IT IS NEITHER LOGICAL OR EQUITABLE TO FORCE AN INNOCENT VICTIM OF THIS FRAUD TO SUFFER THROUGH A FORECLOSURE ACTION WHEN THE BORROWER CAN CONVEY A DEED IN LIEU OF FORECLOSURE. FURTHERMORE, ALL SUCH WAIVERS GRANTED DUE TO APPRAISAL FRAUD SHOULD BE REFERRED TO THE DEPARTMENT OF JUSTICE FOR PROSECUTION. THANK YOU VERY MUCH FOR THE OPPORTUNITY TO PRESENT THIS TESTIMONY.

[ALL ARTICLES ARE FROM THE "SAN ANTONIO (TEXAS) LIGHT"]

JUNE 2, 1982

Real estate firm buys 500 local rental homes

Ep

JUN 2 1982

A Virginia-based real estate investment firm that specializes in buying single-family rental homes in Sun Belt communities as tax shelters for physicians and other investors has purchased nearly 500 newly built houses in San Antonio, most of them since December. The firm, Epic, of Falls Church, Va., is "aggressively purchasing more (houses) on a monthly basis," according to John Askew, a leasing specialist with Ron Cravens Realtors, which has managed Epic's Bexar County properties for almost two years. Epic, which acts as general partner in packaging several residences in limited partnership arrangements, likes San Antonio because of its relatively stable economy, its steady military payroll and its attractiveness to "transplantees," Askew said.

JUNE 24, 1984

EPIC quietly leads as S.A.'s top landlord EP

JUN 24 1984

Keeping fanfare to the minimum, a property management service in Ramsgate Plaza off Interstate 10 in North San Antonio has emerged as the area's leading landlord or landlady, depending on the tenant's outlook.

EPIC Realty Services Inc. has about 2,500 tenants, paying from $260 to $850 monthly on one-year leases for new homes and condominium units in the San Antonio area's newest subdivisions.

Ron Cravens, the EPIC manager-broker who has supervised the development and operation of the leased housing service during its period of phenomenal growth, calls his facility "the largest single-family property management office in the nation."

He said EPIC's 2,100 single family homes and 400 condos are "perfect for what the average family needs."

The houses, purchased literally by the dozens, month after month, are from at least 10 San Antonio area builders. Most of the properties were bought from Ray Ellison Homes, while others were purchased from Morton Southwest, U.S. Home Corp. and Japhet Co.

Cravens estimated that EPIC, a national corporate syndicate involving thousands of limited partnerships, has spent some $175 million with the San Antonio housing industry to accumulate its growing inventory of new housing, stretching from Kirby north around San Antonio in circular fashion west and south to the Lackland area. Most of the properties are outside Loop 410.

Cravens estimated EPIC has spent some $175 million with the San Antonio housing industry.

The manager said 80 percent of EPIC homes and apartments are in the $450-$550 monthly rental range, with the standard one month of rent as the deposit.

Company buyers are selecting new properties at a rate of 100 per month. Cravens said his staff of 26 people will be processing 3,000 lease units by year's end and possibly 4,000 units by the end of 1985. More than two years ago, the manager was the solitary figure engaged in the business that was to explode into the multimillion-dollar housing service that surpasses all others.

EPIC's corporate headquarters is in Falls Church, Va. Branch operations are in Houston, Dallas, Fort Worth, Tampa, Miami, Fort Lauderdale, Phoenix, Tucson, San Diego and San Francisco. Los Angeles and Seattle are soon to be included.

The national trend to condominium living is being felt in San Antonio, Cravens believes, saying EPIC will probably be buying more multifamily structures than single family dwellings in future years.

The leased housing market thrives on high interest rates, which cause prospective buyers to lease instead of buy. "People often rent the home they would prefer to buy," the manager explained. "They can't afford to buy so they rent, and they achieve all the benefits of where they want to live."

Eventually, perhaps in a year, EPIC plans to begin offering some of its properties for sale, but that is a step in the operation not yet clarified.

Leases continue as the popular attraction at Ramsgate Plaza, attracting home-seekers by word of mouth. In nearly every case, the prospective applicants are directed to EPIC by other company tenants, Cravens said.

In the past 30 days, the Cravens staff processed some 230 single-family leases. Field crews must landscape all the new homes, planting shrubs and sodding lawns. The workers complete 50 yards per week and have finished as many as 16 in one day. Because of the scarcity of rainfall, the crews are now placing solid sod instead of seeding the lawns.

To maintain 2,500 properties, the services of many tradespeople and maintenance firms are needed, including locksmiths, plumbers, pest control specialists and air-conditioning repairmen.

The new properties have one-year warranties serviced by the builders' customer service departments. Cravens said the Ellison organization is outstanding in preparation of a home for the occupant.

The deal apparently works well for the big builder. An Ellison executive said the firm's sales to EPIC approach 10 percent of the Ellison output, but is "not significant in terms of total housing stock."

He said the eventual resale of EPIC properties should pose no great problem for Ellison, or not more than any other Ellison-built properties on the resale market.

Market sources indicate EPIC is continuing to attract investors from the high income brackets as its limited partners.

For a minimum of $50,000, an investor can gain a share of ownership in as many as 14 houses, which under the limited partnership arrangement with EPIC management are sources of profit the investor may never feel compelled to inspect.

— E.J. SLAYMAN

APRIL 28, 1985

EPIC building its reputation in Texas real estate 'paradise'

By JIM STEINBERG
Staff writer

APR 28 1985

Conventional wisdom had it that if you couldn't sell your house, you could at least rent it. But that strategy is becoming less of an alternative for the individual homeowner in San Antonio.

Not only is there terrific competition from apartment complexes, but real estate syndicators and individual investors are buying many houses for use as rental properties and tax shelters.

Many syndicators and investors get into the rental business intending to take in less money from rent than they record as expenses in order to shelter other income from taxes.

Equity Programs Investment Corp. (EPIC) of Falls Church, Va., is one syndicator specializing in this investment strategy. Half of its 20,000 residential holdings are in Texas. And more than 3,000 of its properties are located in San Antonio.

EPIC Realty Services Inc. Senior Vice President Mike Marcellin said EPIC likes Texas because it is an "investor's paradise...the most active real estate market in the United States."

> *There is no indication that rental properties have a detrimental effect on neighborhood home values.*
>
> — **JACK WILLOME**
> Ellison Homes president

EPIC purchases in San Antonio typically fill several pages of Holmes & Shaw Inc.'s Metro Report, a monthly listing of real estate transactions across the city. Most of EPIC's San Antonio acquisitions are Ray Ellison Homes.

EPIC and its affiliated companies are a big industry here.

A "confidential" prospectus from one of its partnerships has this to say about San Antonio:

"With the presence of four Air Force bases and one Army base, San Antonio has maintained a pattern of steady population and economic growth...High technology employment increased by 35 percent between 1980 and 1983."

Occasionally, the company's mortgage affiliate, EPIC Mortgage Co., is the most active lender in San Antonio, although more typically it is in the top five. In January 1985 it was the third most active lender, while in February it was the second most active with an 8 percent market share, according to Holmes & Shaw.

Ellison Homes and EPIC have had business dealings with each other for some eight years, said Ellison Homes President Jack Willome. In the early days, EPIC bought builders' model homes and leased them back to the builders. After the builder moved out of an area, the former model homes were converted to rental properties.

Although there is no contractual relationship between EPIC and Ellison, over the last two or three years EPIC has purchased many of Ellison's surplus new houses.

Typically, Ellison will offer a certain number of its unsold homes to EPIC at the end of every month, Willome said. And generally EPIC will buy all that Ellison offers, he added.

"It helps us hone down and manage our inventories consistently and in a predictable way," Willome said. By reducing inventory expenses, Ellison is able to deliver a better value to the customer, Willome said.

There is no indication, Willome added, that rental properties have a detrimental effect on neighborhood home values.

The Holmes & Shaw report for October 1984 showed the 108 homes purchased by EPIC that month represented over 42 percent of the 252 homes sold by Ellison. One EPIC prospectus obtained by The Light showed 28 of 138 properties bought by one limited partnership were located in San Antonio. Another showed 77 of 131 properties owned by another partnership were here.

What happens after the partnership's anticipated five-year life? Some homeowners in houses neighboring EPIC properties are concerned the rental houses will be dumped suddenly on the resale market.

Willome said he feels confident the EPIC houses will remain rental properties "indefinitely." The most likely scenario is that they will be sold to other syndicators, he said.

EPIC Realty's Marcellin noted the houses could also be sold to individual investors or on the open market, "competing with Ellison and everyone else."

Whatever approach is taken, Marcellin said, "it will be orderly and gradual."

EPIC limited partnerships are sold to investors in the 44 percent or above income tax brackets — meaning a taxable income of more than $88,000 for a married couple filing jointly.

AUGUST 20, 1985

Real estate syndicate behind in payments

Owes on securities in mortgages totaling $1.3 billion; has 3,000 homes in S.A.

By E.J. SLAYMAN
Staff writer

AUG 20 1985

Equity Programs Investment Corp., a Virginia real estate syndicator that owns and rents out more than 3,000 homes in San Antonio, is behind in payments to its financiers, but effects of a possible default on the local housing industry are not clear yet.

EPIC, as the company is known locally, buys homes and condominiums in many national markets, including San Antonio, where Ray Ellison Homes is the major provider.

The company disclosed late last week that payments were overdue to holders of securities that financed mortgages on $1.3 billion worth of homes it had purchased.

Frank Manupelli, Ellison executive vice president, Monday said EPIC's troubles should have no direct affect on the big local homebuilder and the San Antonio homebuilding industry. He said EPIC has purchased an estimated 3,000 properties from Ellison in recent years and the syndicate paid off the builder in each case.

The worst case that could develop in the San Antonio market if EPIC failed to survive would be to "soften the used-home market" by the sale of many homes under forced conditions, Manupelli said.

EPIC officials Monday declined to answer questions about the size of the local investment, which in 1984 was estimated by company sources at $175 million

Please turn to SYNDICATE/A6

AUG 20 1985

SYNDICATE:

SYNDICATE/from A1

and growing by the month.

EPIC officials in April said the company's local holdings then totaled more than 3,000 single-family homes and condominiums, making it the city's biggest residential landlord.

The company has three property management offices and a sales office in San Antonio.

Local EPIC officials Monday referred callers to the Falls Church, Va., headquarters.

President Eugene Isaacs, reached in Falls Church, in turn referred all questions to the company attorney, who did not return phone calls.

The principal builder in EPIC transactions locally has been Ray Ellison Homes, which sold scores of new residences each month to EPIC's limited partnerships, which attract investors from high-income brackets nationally. Other San Antonio-area homebuilders also have sold properties to EPIC.

Should EPIC cease to be a regular buyer on the local housing market, its absence would be felt quickly, since builders would lose from 50 to 150 monthly sales and be forced to reduce production accordingly, unless other wholesale buyers appeared on the scene.

Manupelli said the likely victims in a financial upheaval involving EPIC would be the investors in the limited partnerships. Investors in the higher tax brackets have been attracted to the real estate deals, lured by tax shelter benefits.

For $50,000, an investor could gain a share of ownership in as many as 14 houses. The residences are handled under a management arrangement set up by EPIC, with the investor having no direct contact with the properties.

The Wall Street Journal reported Monday that EPIC technically could be in default on its securities by the end of August.

Indicating the magnitude of EPIC's problems, Journal sources said the company must pay about $18 million monthly on its mortgages and mortgage-backed securities while its cash flow only is about $6 million per month.

EPIC is a subsidiary of Community Savings and Loan Association of Bethesda, Md. In order to qualify for federal deposit insurance, the parent S&L was ordered by the Federal Home Loan Bank Board to divest itself of its real estate subsidiary.

The order caused a rush of depositors to withdraw funds.

AUGUST 21, 1985

EPIC status in question; parent looks for buyer

AUG 21 1985

Compiled from staff
and wire reports

The status of San Antonio's biggest residential landlord remained in question Tuesday as the parent company of Equity Programs Investment Corp. looked for a buyer for the real estate syndication firm that owns more than 3,000 local rental homes.

Clayton McCuistion, president of Community Savings and Loan Association, the Bethesda, Md.-based savings association that owns EPIC, told Maryland authorities the institution is talking with a number of interested parties about selling EPIC.

Limited partnerships organized by EPIC own an estimated 3,000 single family and condominium dwellings in the San Antonio area. The propertie are located in the newer subdivisions occupied by tenants who have usuall signed one-year leases on premises often located in Ray Ellison Homes developments. The homes were financed initially by EPIC's mortgage bankin affiliate and their rental is administere by EPIC's property managemen affiliate.

The properties are generally held fo three to five years and then sold, company officials have said, to enable th investors to shelter income from taxes.

The hundreds of properties manage by EPIC, based in Falls Church, Va may come under new ownership because of events unfolding far from Texas in the Washington, D.C., suburbs o

Please turn to EPIC/C1

EPIC: Status still in question

AUG 21 1985

EPIC/from C1

Community Savings was ordered to divest its holdings in EPIC in order to obtain federal insurance. Washington sources indicated EPIC then began withholding payments on $1.3 billion worth of mortgages and mortgage-backed securities in anticipation of new ownership of the subsidiary, setting off talk about possible default.

The default rumors spurred a run on Community Savings by depositors, leading Maryland officials Monday to order a 20-day freeze on withdrawal of deposits, while officers of the thrift try to sell their real estate subsidiaries.

The freeze was imposed by Maryland Gov. Harry Hughes at the request of Community Savings President McCuistion.

Scattered reports in San Antonio suggested EPIC tenants were disturbed at reports of their landlord's troubles and were calling EPIC's four local offices for information about their leased properties' ownership.

EPIC officials in San Antonio continued Tuesday to refer media inquiries to Virginia headquarters. The corporate executives did not return calls.

Homebuilder Ellison also became interested in the plight of one of its major customers and was attempting Tuesday to gain information [illegible] was forthcoming from EPIC officials while it was being positioned for sale by its owners.

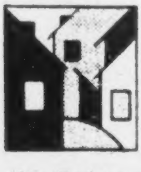
AUGUST 22, 1985

Default may bring EPIC headache to local builders

Investment

By E.J. SLAYMAN
Staff writer

AUG 22 1985



The San Antonio homebuilding industry could inherit a headache born in Maryland and nurtured in Virginia as events continue to buffet the troubled Equity Programs Investment Corp., the real estate syndication firm that is a major buyer of new homes locally.

The National Association of Securities Dealers announced it has launched an investigation of ESI Securities Inc., the EPIC affiliate that wholesales interests in EPIC's limited partnerships to regional brokers and financial planners.

EPIC is the general partner in the partnerships, which are sold to well-to-do individuals as tax shelters. The Falls Church, Va.-based firm buys new homes and transfers ownership to the partnerships. It also manages and leases out the homes to tenants and sells them after three to five years, retaining a fee for its services and passing on profits to its limited partners.

EPIC disclosed late last week that it is in default on payments on mortgages and mortgage-backed securities worth about $1.3 billion.

Please turn to EPIC/[illegible]

EPIC: Pressure building

EPIC/from **G1**

EPIC's estimated 3,000 residential properties under lease to tenants in many of San Antonio's newest subdivisions could depress a soft market here, if the parent corporation's problems result in a forced sale with negative financial implications.

Cliff Morton, president of Morton Southwest, a major area homebuilder, said Wednesday any additional inventory of homes, new or used, could bring pressure to the market.

Morton Southwest is one of the San Antonio builders who has sold some of its properties to EPIC in recent years. "We have only sold furnished model homes," Morton said. "We have not sold any inventoried houses."

Ray Ellison Homes is the single largest producer of new San Antonio residences purchased in recent years by EPIC.

The Wall Street Journal reported Wednesday that Dean Witter Reynolds Inc. was retained by EPIC about six weeks ago to find a buyer for the company.

The Journal said EPIC is in "technical default" on a $1.5 million payment due Aug. 10 to holders of its mortgage-backed securities and that it is behind on another $2.5 million payment due last Thursday. Officials of National Bank of Washington, the trustee for the holders, told the Journal that foreclosure on properties securing the mortgages could not begin until 60 days after default is declared.

A mortgage-backed security is created when a financial instutition buys a pool of mortgages with the same maturity and yield and then sells securities backed by the mortgages.

AUGUST 23, 1985

Troubled EPIC leading buyer

AUG 23 1985

Most coming from Ray Ellison

Investment partnerships organized by financially troubled Equity Programs Investment Corp. purchased an additional 197 new single-family homes and condominium units in Bexar County last month, making the Virginia-based syndicator's mortgage subsidiary the county's largest residential lender for the month of July, Holmes & Shaw Inc. Real Estate Services reported in its monthly publication, Metro Report.

Most of EPIC's July purchases were from Ray Ellison Homes and were located in the Northpark, Lackland City, Camelot, Sunrise, Heritage Park and Great Northwest subdivisions.

Since 1980 EPIC has bought more than 3,000 local residences that it rents to tenants as tax shelters for investors in limited partnerships it controls. The company has been in the news this week because it disclosed that it is behind in payments on more than $1 billion of mortgages and mortgage-backed securities on which the houses it owns are collateral.

EPIC's purchases were nearly 9 percent of the total 2,191 home purchases in Bexar County in July.

Residential sales in July were up nearly 16 percent the June 1985 total of 1,890, but they fell almost 3 percent below the July 1984 total of 2,256 sales, the report indicated.

Sales of existing homes, which have been hurt recently by better financing offered by builders on new homes, have

Please turn to EPIC/**C10**

EPIC: Leading buyer in Bexar

AUG 23 198

EPIC/from **C5**

rebounded since the first of the year, the report noted. Existing homes accounted for only 54.7 percent of total residential sales in January, but by June that portion had risen to 63.7 percent. For the first six months of this year, 5,633 existing homes were sold in Bexar County, or 40.8 percent of a total.

New home sales also are on the rise since the beginning of 1985. In the first half of the year, 3,406 new homes were sold, or 35.8 percent of the total.

Condominiums continued to play a minor role in the area residential market, with only 445 sold during the first six months of the year, or 4.7 percent of total housing sales.

Ray Ellison Homes has been responsible for building 41.4 percent of the new homes so far this year. Nash Phillips/Copus had a 13.5 percent share, followed by Gemcraft Homes, with 7.9 percent, Morton Southwest with 4.6 percent and Wood Bros. Homes with 3.3 percent.

Total lender financing in July was at its highest level this year, with loans totaling $119.7 million. Seller financing totaled only $8.3 million, according to the July report.

AUGUST 25, 1985

SAN ANTONIO LIGHT

Troubled landlord has renters worried

By KEVIN JOHNSON
Staff Writer

For the past four years, almost every month, the Equity Programs Investment Corp. has been buying scores of new homes and condominiums in subdivisions ringing the city.

It has become one of Bexar County's busiest landlords by making its new homes available to renters at rates significantly lower than the cost of buying the house.

In one of the city's newest subdivisions, Northpark on Judson Road at Loop 1604, plush new three-bedroom, 3½-bath EPIC townhouses are being rented for $595 a month.

But EPIC's announcement that it s delinquent on its mortgage payments has set off a panic of "Epic" proportions — not only in the financial world, but in the subdivisions, where homeowners worry about the future of their neighborhoods and EPIC renters hope to weather their landlord's financial storm.

Nowhere are residents more concerned about EPIC's uncertain future than in the Vista subdivision on the far Northeast Side.

Karen Gorenc, an EPIC renter for the past two years, described her subdivision as more than 70 percent EPIC controlled. She said she was "heavily pressured" into signing a new year's lease on her home Aug. 18, even though her current lease was not due to expire until Sept. 30.

Gorenc, who with her military husband has been renting from EPIC for the past two years, said she received a phone call from an EPIC representative who informed her that the $530 rent on the family's three-bedroom house would be increased by $45 when her lease expired.

"He also told me that if we didn't get in there (to sign the lease) by Aug. 20, our rent would be going up even more," Gorenc said. "Since we're in the military, I don't know if we'll be staying another year but we signed it anyway.

"I didn't know they were in trouble until I read it in the newspaper."

Rent troubles are not the only complaints being registered by EPIC tenants.

Gorenc said EPIC has a housing maintenance policy that makes renters liable for the first $50 in repairs and prohibits them from hiring contractors other than EPIC maintenance crews to do the work.

"I've never had a landlord like this," Gorenc said, charging that the company also reneged on a promise to plant grass in the yard.

Another Vista renter, James Farren, has no complaints about EPIC, but he badly wants an explanation of the company's financial troubles.

holding his $485 rent payment, due next week, if officials do not talk to him.

"If I can't get them Friday, I'll camp on their doorsteps Monday morning," Farren vowed. "Somebody will talk to me. They'll have to get past me to get in the office. I don't mean to be belligerent, but that's my money.

"I've only been here three months," Farren said, "and I've had no problems at all with EPIC."

But he is uneasy about the $785 he has invested in deposits, and he has been unable to get answers to his questions.

"They (EPIC) could come out of this smelling like a rose," Farren speculated. "Another company could come in, and it could be business as usual. But on the other hand, we could wake up tomorrow morning with an eviction notice tacked to our front door

"They've got 3,000 families renting from them. What's going to happen to them if EPIC goes under? I would feel better if EPIC would say something. I would feel better even if EPIC would lie to me and tell me everything is all right.

"I don't know how much civic pressure should be brought to bear," he said, "but all 3,000 tenants may have to physically scream and jump up and down to get their attention."

Farren said he was attracted by the availability of new homes at EPIC's affordable rates.

A neighbor, Debra Hagey, one of the few residents who owns her home in the Vista subdivision, said she is just going to "wait and see."

"I know if everybody leaves the neighborhood, all the yards will go to pot and my ability to resell this house will go down," she said.

Hagey said she moved into the subdivision two years ago and immediately noticed the presence of rental homes.

"Across the street was EPIC and now the houses on both sides are EPIC."

She said the neighborhood is "still real nice," but she is worried about her renting neighbors.

"I've been very lucky who they (EPIC) have rented to. But they could be out of a house in a month or two. EPIC hasn't told them anything."

Meanwhile, on the far Southwest Side in the Hidden Cove subdivision, homeowner Tony Zepeda lives on a street where EPIC owns eight rental houses. He said his house has been on the market for a year, and during that time only one couple has come to visit.

"They came in, and I never heard from them again. I'm not going to make nothing; I'm just trying to get out," he said.

EPIC officials could not be

AUGUST 25, 1985

Will the other shoe drop on city's homeowners?

Compiled from staff and wire reports

Just weeks before Equity Programs Investment Corp. disclosed that it could not meet payments on its $1.3 billion mortgage debt, the firm went on a buying frenzy in San Antonio, gobbling up 197 houses in July.

How could an outfit that faces such severe cash problems accomplish this?

It was easy, for EPIC did not purchase houses the old-fashioned way.

An investor's memorandum for houses bought last November shows EPIC made money on each San Antonio house it purchased, almost $250,000 in total, through transactions that included builder rebates of up to 20 percent.

On a typical $63,000 house it purchased from Ray Ellison Homes, EPIC received an $8,400 surplus from the builder after down payment, mortgage loan fees and closing costs.

In addition, the memorandum notes that EPIC directly receives a 9 percent "service fee" from the builders.

The question now is, how is EPIC going to make the mortgage payments on those 197 houses and the 3,000 other housing units — homes, condominiums and apartment buildings — it has purchased in San Antonio since 1980?

And, more critically for San Antonio's home builders, homeowners and the people who live in EPIC's properties, what happens if the city's largest landlord is forced to sell off those 3,000 residences in an already soft market?

No one is prepared to answer those questions now, least of all officials of the Falls Church, Va.-based EPIC. They steadfastly have refused to talk about their problems since the announcement 10 days ago that EPIC could not meet its debt.

But what looms as a potentially serious problem to the San Antonio economy already is a crisis in the insurance industry.

Nationally, the greatest concern is that an EPIC default could cause millions of dollars of losses for the private mortgage insurance companies that insured mortgage-backed notes that EPIC sold to savings and loan associations and other institutions in the second mortgage market.

Moody's Investors Service Inc. last week estimated insurance company losses could rise as high as $300 million, and announced a review of insurers.

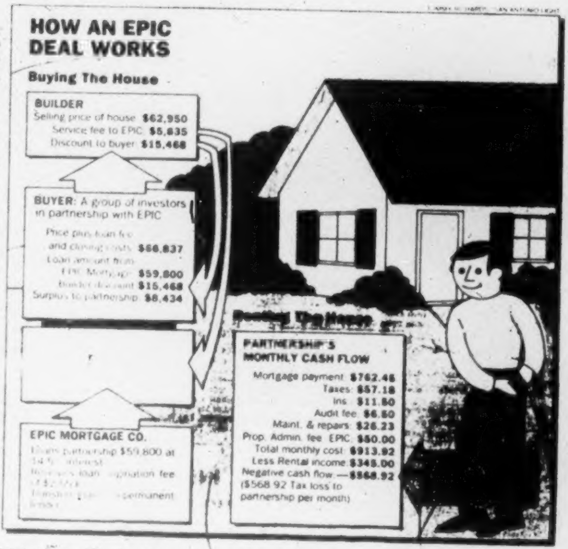
The Federal Home Loan Bank Board last week estimated that potential losses due to EPIC default could range as high as $50 million for some S&Ls that hold EPIC mortgage-backed securities.

The National Association of Securities Dealers is looking to see if the EPIC affiliate that markets the company's limited partnership units, ESI Securities Inc., is in compliance with regulations.

The Securities and Exchange Commission does not deny or confirm reports of its own probe.

And, the Maryland savings and loan association that owns EPIC suffered a run by depositors. The state's governor forced it to close temporarily for most of last

Please turn to HOMES/A24


HOW AN EPIC DEAL WORKS
Buying The House
BUILDER
Selling price of house $62,950
Service fee to EPIC $5,835
Discount to buyer $15,468
BUYER: A group of investors in partnership with EPIC
Price plus loan fee and closing costs $66,837
Loan amount from EPIC Mortgage $59,800
Builder discount $15,468
Surplus to partnership $8,434
EPIC MORTGAGE CO.
Loans partnership $59,800 at
Renting The House
PARTNERSHIP'S MONTHLY CASH FLOW
Mortgage payment $762.46
Taxes $57.18
Ins. $11.80
Audit fee $6.50
Maint. & repairs $26.23
Prop. Admin. fee EPIC $50.00
Total monthly cost $913.92
Less Rental income $345.00
Negative cash flow —$568.92
($568.92 Tax loss to partnership per month)

HOMES: EPIC questions remain

OMES/from **A1**

veek.

EPIC owns 20,000 houses nation-ide, most of them in Sun Belt cit-s. Nowhere does EPIC own more omes than in San Antonio.

Here, EPIC homes are located enerally in new subdivisions rang-g across the outskirts of the city, ost of them in Ray Ellison Homes eighborhoods with a scattering in her major builders' areas.

EPIC was founded about a de-ade ago and found the fertile San ntonio market some five years lat-r. By mid-1984, it had invested bout $175 million in the local ousing market and a spokesman alled its San Antonio leasing office the largest single-family property anagement office in the nation."

San Antonio became one of PIC's principal markets — de-cribed in company sales literature s "an investor's paradise" with a trong military presence and a ris-ng volume of high-tech evelopment.

Half of its 20,000 properties are n Texas, an EPIC official told The ight in April.

Though EPIC officials are mum, n explanation of EPIC's method of peration can be pieced together om its prospectus and reports this ast week in several national news-apers based on interviews with ormer EPIC officials and industry xperts.

Virginia builder Tom J. Billman levised EPIC's system in 1974, al-hough he left the company in the ast year. EPIC's "system" is a con-ept familiar to anyone who pur-hased a home in the inflation-gid-ly 1970s, when the combination of appreciation and tax write-offs made homeownership one of the most attractive investments ever.

What Billman did was to parrot what individual homeowners were doing on a massive scale. And along the way, he set up companies that would provide all the needed services from mortgages to maintenance.

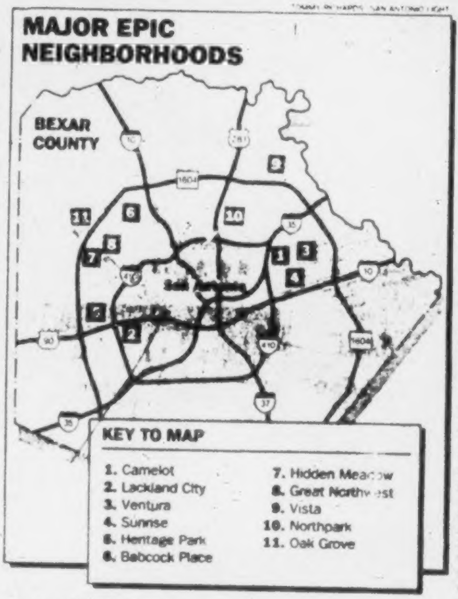
What happened to EPIC is apparently what has happened to homeowners in San Antonio and across the nation. Inflation has slowed and appreciation has all but disappeared, especially in the $50,000 to $80,000 market where EPIC buys the bulk of its properties.

Also, the competition to sell pre-owned homes is intense: as of April almost 11,000 San Antonio homeowners had their homes for sale, the highest level ever recorded in the city.

Some of the houses that EPIC purchased in 1980 were supposed to be sold this year. Industry speculation is that EPIC could not unload many of the houses, depriving it and its investors of millions of dollars.

Worse for EPIC, President Reagan's threatened tax reforms have scared away many of the potential investors EPIC was counting on to refuel the money machine.

TOMMY RICHARDS SAN ANTONIO LIGHT



In the early 1980s, EPIC started buying new houses from builders, often — judging from its San Antonio pattern — the unsold houses that a builder needed to unload to complete a subdivision. In San Antonio, according to local real estate sources, it also has purchased entire condominium projects from builders.

EPIC, acting as general, or managing, partner, set up dozens of partnerships, typically including 25 investors who agreed to put up $25,000 to $50,000 in return for tax write-offs worth at least that much and the promise of a share in the profits from the property sales when the partnership matured in three to five years.

A company document explains that investors could offset part of their income with non-cash losses from the real estate venture.

Its mortgage affiliate, EPIC Mortgage, would finance the home purchases. EPIC would transfer ownership of a package of 20 to 100 or more houses to one of the partnerships. The houses would be placed on the rental market, with another affiliate, EPIC Realty Services, in charge of daily operations for a fee.

Since the rents charged on the houses were less than the mortgage payments and management fees, EPIC would make up the difference through "loans" to the partnerships.

Some notes on those loans to partners were sold to other institutions, as were the mortgages on the houses. Other mortgages and loans were pooled and mortgage-backed securities based on them were sold, insured by private mortgage insurance companies. A mortgage-backed security gives the holder a portion of the mortgage payments.

It is payments on some of those mortgages and mortgage-backed securities that are late, threatening foreclosure on EPIC's houses.

The Washington Post reported that "a key to the EPIC system" was buying houses at below-market prices and requiring builders to pay EPIC a fee of 7 percent to 9 percent of each home's price.

That fee generated substantial cash, typically more than offsetting the 5 percent down payment EPIC Mortgage required on the houses it financed.

"Each time they bought a house they made money," one source told the Post. "All you have to do is keep buying."

A fee schedule in an EPIC publication describing a partnership that involved acquisition of 134 homes — 28 of them from Ellison in San Antonio, 44 in Houston, four in Corpus Christi and 62 in Salinas, Calif. — indicated that the builders rebated to EPIC an average of 18 percent of the purchase price on each home. The Ellison contribution was listed at $143,645.

Frank Manupelli, executive vice president at Ellison, expressed doubt the big homeowner and leasing agent will fail, but he conceded the San Antonio housing market would suffer if a large number of EPIC houses should be turned loose on a market that already is faltering.

He said Ellison has become closely involved with the EPIC operation because of Ellison's mass production capability. "We've been better equipped to deal with them," he commented.

Manupelli has been the only Ellison executive available to comment during the uproar over EPIC, since Chairman Ray Ellison and Ellison Homes President Jack Willome have been out of town on vacation.

Cliff Morton, another major builder who is president of Morton Southwest Inc., also said the local builders' market would be depressed by the additional weight of new or used homes descending on the market in volume.

Morton Southwest sold some of its model homes to EPIC in past years, but Morton said his company has never sold from its inventory to the large-scale purchaser. "We don't believe it would be fair to our other customers," he explained.

EPIC also makes money from the fees its affiliates charge at each stage of a partnership's operation as well as from the distribution of revenue. For example, in the description of a recent limited partnership offering, EPIC said it would receive an organization fee of 7 percent of the limited partners' capital contribution.

EPIC also charges the partnership a property administration fee of $50 per home per month and 15 percent interest on advances it makes to the partnership to cover deficits between rental receipts and mortgage payment and other costs.

EPIC Mortgage levies a 4.27 percent mortgage loan origination fee and a loan servicing fee of 0.5 percent per year, on top of its financing of the first mortgage at 14.5 percent.

Dean Witter Reynolds Inc. of New York emerged late in the week as the chief sleuth in a search for a buyer for EPIC.

The New York Times and the Wall Street Journal reported that the bailout plan would require pumping more money, ranging from $100 million to $250 million, from investors Dean Witter has lined up and from mortgage insurers into EPIC.

The Times quoted insurance executives already involved with EPIC securities, expressing doubt that their companies would participate in a cash infusion to save the big home buyer.

This story was compiled from reports by staff writer E.J. Slayman, from accounts in the Wall Street Journal, the New York Times and the Washington Post, and from Associated Press dispatches.

AUGUST 27, 1985

SAN ANTONIO

2

EPIC buyer sought

The search for a buyer of Equity Programs Investors Corp., the Virginia-based owner of some 3,000 San Antonio rental houses, continued in national financial circles Monday as its parent, Community Savings and Loan Association of Maryland, sought to restructure and recapitalize in order to obtain federal deposit insurance. The Wall Street Journal reported Monday that Dean Witter Reynolds Inc., which was hired by community to find a buyer for EPIC, still was working on a bailout plan involving EPIC's mortgage insurers and undisclosed investors. In San Antonio meanwhile, Ray Ellison Homes, which has built and sold most of the local homes owned by EPIC, was reported to be watching the developments closely and weighing future production quotas. In past months, EPIC has made large-scale purchases of homes from Ellison, reducing the Ellison inventory sharply at times. A spokesman said Ellison planners have not determined if the big homebuilder's housing starts for the third quarter will be affected by a possible slackening of home purchases by EPIC.

RAY ELLISON
Watching future

SEPTEMBER 10, 1985

SAN ANTONIO

SEP 1[illegible] 1985

S.A. EPIC homes 'not affected'

A local source familiar with Equity Programs Investment Corp. said Monday that the national real estate syndicator's Chapter 11 bankruptcy filing last week has not affected the management of some 3,100 housing units owned by the company in San Antonio. The source, who asked not to be identified, said EPIC is going about its business as usual here, where 95 percent of its properties are occupied by tenants. Should any of the units be sold, the source emphasized, there would be no "fire sales." Rather, the units likely would be sold gradually and at retail prices, the source said. Falls Church, Va.-based EPIC, which organized pools of investors for purchase of 20,500 homes nationally, is behind on payments on $1.4 billion of mortgages and mortgage-backed securities to various lenders. Maryland state officials placed EPIC's parent, Community Savings and Loan Association of Bethesda, Md., under conservatorship Friday, but it was still unclear late Monday if the conservator would be operating EPIC also.

SEPTEMBER 24, 1985

Real estate company under Chapter 11 buys 54 more homes

SEP 24 1985

Equity Programs Investment Corp., the Virginia-based real estate syndicate that filed for Chapter 11 bankruptcy Sept. 6, purchased 54 more new San Antonio homes in early August, according to a monthly report on local home sales.

Investment partnerships controlled by EPIC have bought more than 3,000 homes here in the last two years or so, renting them out and using them as tax shelters for the investors.

The EPIC purchases were among 1,948 new and existing homes sold last month in Bexar County, Holmes & Shaw Inc. Real Estate Information Services reported in its monthly publication, the Metro Report.

August home sales fell below both the previous month's and the year ago levels. Sales declined 11 percent from July's sales total of 2,191, and 17 percent from August 1984's sales of 2,367.

EPIC, a subsidiary of Community Savings and Loan Association of Bethesda, Md., filed for protection from creditors under Chapter 11 of the U.S. bankruptcy code after it became delinquent in late August on payments due on more than $1 billion in home mortgages and mortgage-backed securities.

The filing will allow it to continue operating while efforts are underway to work out a plan to pay off its debts.

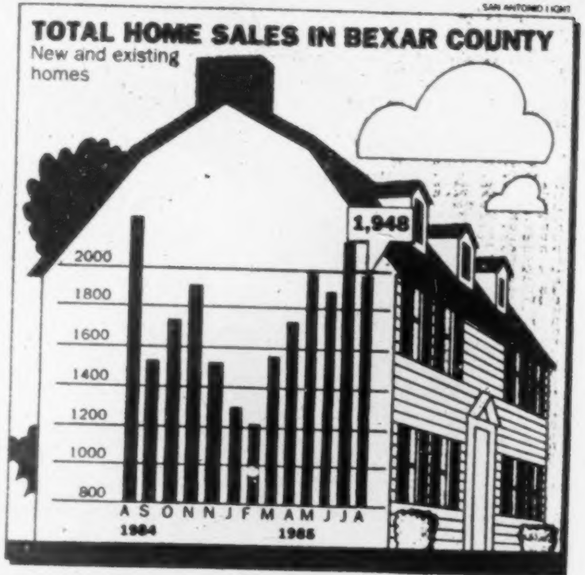
Ray Ellison Homes sold all 54 homes to EPIC last month before the syndicator's financial woes started making national headlines.

Ray G. Van Cleave, editor of Holmes and Shaw's residential report, said in the report that of 598 San Antonio homes EPIC has purchased since January, 564 were from Ellison. That figure represents about 31 percent of total Ellison sales and about 13 percent of total new home sales in Bexar County so far this year, Van Cleave wrote.

Ellison was the most active home seller last month in Bexar County, with 223 homes sold, followed by Nash Phillips/Copus, Gemcraft Homes Inc., Morton/Southwest Co., Sitterle Properties and Wood Brothers Homes Inc.

The six most active lenders last month were Texas Homestead Mortgage, an Ellison subsidiary; Great Central Mortgage; Alamo Investment Co., Mortgagebanque; Waterfield Financial and EPIC Mortgage Inc

SAN ANTONIO LIGHT



SOURCE: HOLMES & SHAW INC.

Seller financing for those homes last month totaled $7.66 million, compared with $8.3 million in July. Financing from lenders totaled $103.9 million, compared with $119.7 million the previous month.

Land and commercial building sales in Bexar County also slowed in numbers last month, though loan dollar volume was up.

The slowdown reflects a large inventory of unused office and apartment space, according to Holmes & Shaw's commercial edition of the Metro Report.

Bexar County had 255 land and building sales last month, compared wtih 331 in July. Loan volume on those purchases increased 63.4 percent, however, from $158.3 million in July to $258.7 million in August.

The most active commercial lenders last month were Republic-Bank-Dallas, $70 million; Bexar Savings Association, $32.2 million; National Bank of Commerce of San Antonio, $14.8 million; Commonwealth Mortgage Corp., $11 million; and First State Savings Association, $8 million.

OCTOBER 5, 1985

Tenants giving EPIC notice

Oct 5 '85

Renters being asked to file as creditors

By **STEVEN H. LEE**
Staff writer

Local renters of properties owned by partnerships controlled by Equity Programs Investment Corp., which filed last month for reorganization under Chapter 11 of the federal bankruptcy code, are being asked to file claims as potential EPIC creditors.

EPIC tenants in at least one San Antonio neighborhood received notices Thursday from a Washington, D.C., law firm, urging them to fill out enclosed claim forms and send them to U.S. Bankruptcy Court in Alexandria, Va.

The notices reminded the tenants that they still are liable for monthly rental payments to EPIC Realty Services, an affiliated management firm that collects rents on about 3,000 EPIC rental homes in San Antonio.

But the letters also noted that EPIC Realty holds security deposits from the tenants, suggesting the renters could file claims for security deposits owed them in the event the money is not disbursed.

"The intent is to protect any rights they (the renters) might have," said Richard Morvillo of the Washington law firm Verner, Liipfert, Bernhard, McP son & Hand, which mailed out the notices. He ad that the letters were mailed to "anyone who may ceivably have a claim."

The law firm represents the EPIC partnership

> *The letter looks like junk mai*
>
> — **SCOTT SOMERS**
> EPIC ten.

Please turn to RENTERS, A

RENTERS: Claims

RENTERS from **A17**

The letters included notice of a creditors meeting in Alexandria, set for Oct. 14 at 10 a.m. in the Howard Administration Building Gym, 3501 W. Braddock Road. But the letters indicated that it is not necessary for all creditors and local EPIC renters to attend.

"The letter looks like junk mail," said Scott Somerset, an EPIC tenant living in the Heritage Northwest subdivision off Marbach Road, west of Loop 410. "I almost threw it away."

There was confusion Friday over whether the EPIC renters already are considered creditors.

A local EPIC Realty spokesman said the renters are not creditors unless security deposits already are due to them and not paid. A spokeswoman in the bankruptcy court in Alexandria said all the renters generally are considered creditors.

But EPIC attorney Morvillo said the status of the tenants as creditors "would depend on a number of legal conditions that have yet to be determined."

OCTOBER 13, 1985

Land appraisal practices finally getting the once-over

Knight-Ridder Newspapers

MIAMI, Fla. — For nearly a decade, a little-known Virginia land company stretched its corporate hand across the nation and scooped up massive numbers of houses and condominiums, including almost 3,000 in San Antonio. Last month, to the horror of thousands of its investors, the company filed for reorganization under Chapter 11 of the bankruptcy code.

Examiners kicking through the remains of Equity Programs Investment Corp. are looking at the real estate appraisals behind $1.4 billion in loans. EPIC's default and the resulting multi-million dollar losses to mortgage insurance companies add to accumulating evidence of problems with the reliability of real estate appraisals.

OCT 13 1985

> *Everybody is on a witch-hunt for appraisers right now.*
>
> — **RICHARD GAMBLE**
> AmeriFirst Appraisal Co. president

Real estate loan underwriting and appraisal practices are under intense scrutiny, particularly in parts of Florida, Texas and California, where inaccurate appraisals appear to be a factor in several savings and loan association failures.

This week, the Federal National Mortgage Association — known as Fannie Mae — will impose tough new standards for mortgage loans that affect how much cash buyers will need as well as require closer inspections on property appraisals.

Fannie Mae, which holds more home loans than any other private company in the country, charged off $87.3 million worth of loan losses last year, a record for the congressionally chartered corporation. Fannie Mae could have more losses from the more than $100 million in mortgages issued by EPIC that it owns.

In a recent survey of 300 home mortgage defaults, Mortgage Guaranty Insurance Corp., a firm that insures home loans, found one-third of the defaults linked to inaccurate appraisals.

"Of the claims coming in, about 25 percent involve some level of fraud," said Steve Dohler, executive vice

Please turn to APPRAISALS/D7

APPRAISALS: Appear to be major factor in failing S&Ls

APPRAISALS/from D1

president of the Mortgage Insurance Cos. of America, an industry trade group. "Appraisal fraud is a key factor."

Richard Hewitt, a former district appraiser for the Federal Home Loan Bank Board, said underwriting problems are endemic in the real estate industry. Appraisal inaccuracies, he said, almost always accompany a bank or savings and loan failure.

"Any one of the demised institutions have had poor loans that are the result of faulty appraisals," the Fort Lauderdale appraiser said. "It's a problem that is blatant enough not to be a professional oversight. You are looking at inflated numbers. Appraisers are using a lot of tricks to get the numbers up."

Lenders nationwide hold loans tainted with dubious property value reports. Federal and state officials are investigating appraisal reports in the files of several defunct savings and loans. And congressional investigators are gathering information for future hearings on the problem.

"The appraisal is supposed to be a totally independent measure of value," said Kevin Villani, chief economist with the Federal Home Loan Mortgage Corp. "After what has happened to EPIC, there are questions about the validity of the process."

Inflated appraisals do more than distort the value of property. Initially, they increase commissions paid to real estate brokers and mortgage bankers. Later, owners may learn their property is not worth the appraised value. And that has led to an increase in loan defaults.

Members of the once-obscure appraisal profession have gone on alert. They are buying malpractice insurance, in fear of being sued. At professional gatherings, they talk about the problems tarnishing their reputations.

"Everybody is on a witch-hunt for appraisers right now," said Richard Gamble, president of AmeriFirst Appraisal Co., a subsidiary of Miami-based AmeriFirst Federal Savings and Loan Association. "There have been some great losses out there and appraisers are being blamed."

In California and Texas, lenders have filed a host of suits charging appraisal fraud in cases that involve millions of dollars in losses.

"We believe we were basically bilked out of millions of dollars," said William J. Popejoy, chairman of Financial Corp. of America, a giant California-based lender, which last year sustained $590 million in losses blamed largely on bad real estate loans.

Federal and state banking authorities have begun tough enforcement actions at lending institutions throughout the country.

Since April, federal regulators have seized seven California savings and loans with total assets exceeding $11.5 billion.

In South Florida, federal authorities seized Boynton Beach-based Sunrise Savings and Loan Association in July. Sunrise has assets of $1.5 billion.

S&Ls had $2.1 billion in losses and provisions for losses on real estate loans last year. That's more than triple the levels in 1982, according to figures reported by the Federal Home Loan Bank Board.

One of the biggest problems, appraisers say, stems from the general decline in real estate prices. If real estate values increased as much in the 1980s as they did in the late '70s, most appraisal errors would never have been detected. Rising property values would have covered any mistakes.

OCTOBER 16, 1985

Claim fraud, loss of property value when surplus sold to investors

By J. MICHAEL DOUGLAS
Staff writer

A multi-million dollar fraud suit was filed Tuesday against Ray Ellison Homes Inc. by homeowners who claim the builder sold them houses at top prices, then destroyed property values by selling off surplus homes in the same subdivisions to investors who turned them into cheap rental properties.

The suit was filed in District Court on behalf of the owners of 151 homes in the Vista, Hidden Meadow, Miller's Point, Crownwood, Sunrise and Hidden Cove subdivisions. It accuses Ellison of intentionally "debauching and stigmatizing the quality of the neighborhoods," which the company earlier led purchasers to believe were to be owner-occupied subdivisions.

CT 16 1985

> *Figures compiled by Holmes & Shaw Real Estate Information Services Inc. indicate that out of 3,200 homes Ellison sold between August, 1984 and July 1985, 1,196 were sold to EPIC partnerships.*

The suit asks $20 million in punitive damages and millions more in not-yet-estimated refunds to homeowners whose lawyers say paid as much as 50 percent too much for the houses. Homeowner dissatisfaction arose when they began to notice uncommon numbers of rental houses in their areas and got angry about that, said Patricia Maloney, an attorney with the law firm of Pat Maloney who is representing the homeowners.

Officials of Ray Ellison Homes could not be reached late Tuesday afternoon to comment on the suit.

However, earlier this year in an interview with The Light, Ellison Homes President Jack Willome said his company had been selling houses to Equity Programs Investment Corp. (EPIC) of Falls Church, Va., for about eight years.

Initially, EPIC would set up partnerships for investors who would buy model homes, then lease them back to the builders. When the subdivision was completed, the houses were used as rental properties. In the last two or three years, however, Ellison would offer some of its unsold homes to the company at the end of each month, and EPIC would buy all that were offered, Willome said in the earlier interview.

Figures compiled by Holmes & Shaw Real Estate Information Services Inc. indicate that out of 3,200 homes Ellison sold between August 1984 and July 1985, 1,196 were sold to EPIC partnerships.

EPIC packaged those houses into tax shelter partnerships, and they were also used for rental properties. In September, however, 341 of those partnerships nationwide filed for Chapter 11 bankruptcy, leaving the fate of those houses uncertain.

The plaintiffs contend that Ellison intended to continue selling houses to investors.

The exact number of investment properties sold by Ellison is not yet known, Maloney said.

OCTOBER 17, 1985

Ellison rejects Maloney claim

Willome stresses builder's commitment to neighborhoods, city

By J. MICHAEL DOUGLAS
Staff writer

A Ray Ellison Homes executive angrily dismissed claims that his company defrauded local home buyers, saying the company would lose as much as the homeowners if the charges were true.

"We have not committed fraud, and we are offended that we have been accused of fraud," Jack Willome, president of Ray Ellison Homes Inc., said Wednesday.

The lawsuit, filed in state district court Tuesday by Patricia Maloney and Pat Maloney Sr. of the Pat Maloney law firm, charges Ellison defrauded owners in six subdivisions by selling surplus houses to investors who used them as rental properties.

Plaintiffs in the civil lawsuit are owners of 151 Ellison-built homes in the Vista, Hidden Meadow, Miller's Point, Crownwood, Sunrise and Hidden Cove subdivisions.

The suit asks $20 million in punitive damages and unspecified actual damages from the alleged loss of value.

Oct 17

> *We are offended that we have been accused of fraud.*
>
> — **JACK WILLOME**
> Ray Ellison Homes Inc. president

In dismissing the suit Wednesday, Willome said Ray Ellison Homes would have had as much to lose as the homeowners by hurting the neighborhoods.

"First of all, we have a long-term commitment to home building in San Antonio, and especially in those neighborhoods represented in the lawsuit," he said. "The suit alleges that we have purposefully done something to cause a decline in home values. No one would suffer more from such an action than our own companies."

He charged that the suit itself was instituted by attorneys, and not homeowners. "We have evidence that this lawsuit has been openly solicited by a law firm, which is the real plaintiff in this action," he said.

The law firm has been prominent in big-dollar lawsuits in the past, including actions involving the poisonous gas leak at Union Carbide's Bhopal, India, plant and the collapse of the Hyatt Regency Hotel in Kansas City.

In discussing the recent case against his company, Willome said that the publicity over the suit could have the very effect the plaintiffs say they fear — a

Please turn to ELLISON/C10

ELLISON: Rejects claims in suit

ELLISON: from C1

decline in real estate prices.

"Real estate values are subjective," he said. "The lawsuit itself could be a self-fulfilling prophecy, perpetuating declining property values, which would hurt our company as well as the homeowners."

The claims against the company involve the sale by Ellison of unsold housing inventory to Equity Programs Investment Corp. (EPIC) of Falls Church, Va.

EPIC would package those houses into tax shelter programs for groups of investors, then would have an affiliate rent out the houses. Of the 3,200 homes sold by Ellison between August 1984 and July 1985, 1,196 were sold to these EPIC partnerships, according to residential real estate sales reports by Holmes & Shaw Real Estate Information Services Inc.

OCTOBER 18, 1985

EPIC liquidation plan reached

Agreement won't oversaturate local market, officials say

Compiled from staff and wire reports

The Maryland state deposit insurance fund and an investors' committee for Equity Programs Investment Corp. reached agreement Thursday on a plan to liquidate all of EPIC's 20,000 properties, officials said.

Almost 3,100 of the those houses are located in San Antonio.

However, the liquidation, which is to occur gradually over a three-year period, will not cause an oversaturation or a panic on the housing market here, local industry officials said. Many expressed confidence that the liquidations in this area will proceed calmly.

"I don't think we're going to see fire sale prices from this," said Kyle Saunders, vice president of sales for Nash Phillips/Copus is San Antonio.

"We are optimistic that the people with big financial commitments will go ahead with this in an orderly manner. I don't think it will affect our neighborhoods or our plans for the coming year," he said.

Jack Willome, president of Ray Ellison Homes, agreed. "Our position consistently has been that there is not going to be any immediate impact on the marketplace by a dumping or a mass liquidation of houses," he said.

No drastic effects are foreseen for the local resale housing market either.

"We're already oversaturated with 12,000 homes for sale," said Ron Wakefield, president of the San Antonio Board of Realtors.

"That's a 17-to 18-month inventory." At worst, he said, an EPIC liquidation could add another four-month supply to that inventory.

Most likely to be affected, Wakefield said, would be local builders of medium-priced new homes. "I think the nearest competition for these (EPIC) houses would be Ray Ellison (Homes), since most of those homes were sold by Ellison to EPIC."

The plan, put forth by the Federal National Mortgage Association (Fannie Mae), still has to be approved by EPIC's other investors and insurers and by a Virginia bankruptcy court. Fannie Mae holds $100 million of EPIC's mortgage backed securities.

> *Our position consistently has been that there is not going to be any immediate impact on the marketplace by a dumping or a mass liquidation of houses.*
>
> **— JACK WILLOME**
> President of Ray Ellison Homes

■ Attorney Patricia Maloney, representing homeowners suing Ray Ellison Homes, rejects a charge by the firm that she and her associates instigated the multimillion suit/**Page C2**

If the plan is implemented, all properties owned by the 341 EPIC partnerships that have declared Chapter 11 bankruptcy would be assigned to a "work-out" plan to be carried out by a court-appointed manager. EPIC's $1.4 billion in secured debt would be liquidated over a five-year period.

The properties would be liquidated in no less than three years, to protect EPIC's limited partners in the partnerships — affluent individuals who were seeking tax shelters — from the "adverse tax consequences" resulting from more rapid liquidation.

Investors in EPIC's mortgages and mortgage-backed securities would be asked to waive all existing defaults filed against EPIC for non-payment and to agree to accept an interest rate of 9 percent, compared to the average 13.8 percent the mortgages and securities carried when issued by EPIC.

The bail-out plan will free EPIC's parent, Community Savings and Loan of Bethesda, Md., of $93 million of the $120 million it has in EPIC-related interests, said Melville Brown, director of the Maryland Deposit Insurance Fund.

Once the properties of the bankrupt EPIC are liquidated, the Maryland insurance fund, which now is conservator of Community, hopes to be able to find a buyer for the troubled S&L, state officials said.

Insurance fund spokesman Norm Silverstein said it could be "a matter of weeks or months" until the bail-out plan is approved by a federal bankruptcy judge in Alexandria, Va.

The committee of lenders represents millions of secured debt involved in the EPIC workout. Community, through its conservator, the state insurance fund, will receive $5 million in cash from the committee's plan.

Maryland Gov. Harry Hughes, who addressed an emergency session of the General Assembly in Annapolis on Thursday, called the bail-out plan "a significant and important step forward in our effort to restore the financial integrity of Community . . . and provide relief to the association's depositors."

Community, with 28,000 accounts, is under state conservatorship. Until the state finds that Community is financially sound, all withdrawals will remain frozen, said Silverstein.

Depositors at Community and at Baltimore's Old Court Savings and Loan have formed a 1,000-member depositors committee, which has been lobbying in Annapolis to get the state to release their money.

Community will be more attractive to potential buyers once it divests itself of EPIC, Silverstein said.

"I've had a number of inquiries from interested parties," an insurance fund official said of the troubled thrift. "But it's all so damn preliminary."

OCTOBER 18, 1985

Lawyer for homeowners rejects Ellison charge

Equity Program

A lawyer for homeowners suing Ray Ellison Homes Inc. has rejected claims by the builder that her firm, not the property holders, really instigated a multimillion dollar damage suit filed here Tuesday.

Patricia Maloney, an attorney with the Pat Maloney law firm, Thursday dismissed allegations by Ray Ellison Homes President Jack Willome that she and her associates openly solicited the clients.

"If what Mr. Willome contends is that these people were induced, solicited and beat over the head into filing this lawsuit, I can give him 153 phone numbers and he can find out for himself how this thing got started," Maloney said. "I think it's pathetic, wishful thinking on his part that these people are not really as disgruntled as they are."

Willome, however, said he stands by the allegation, saying his company has documented evidence to support it. He cited as an example a message he said he received from a property owner in one Ellison subdivision who said Maloney representatives were going "door-to-door."

Investment

Maloney and some of the homeowners who initially instituted the suit denied that happened.

Corp

David Varos, the leader of the suing homeowners, said he and a few others initially talked about a lawsuit. Word then spread to other subdivisions and homeowners by word of mouth. "Each subdivision had a spokesperson," he said. "It eventually got to the proportions it is now. Myself and spokespersons from each of the subdivisions asked her (Maloney) to get involved in the case."

Willome said he did not doubt that a small group of homeowners were involved initially, adding, "They're the same ones who threatened a class-action suit (against us) about warranty service problems in June. They've (the law firm) used some of these homeowners to do some of the legwork for them on this, but it's still our opinion that the law firm is behind it."

FEBRUARY 8, 1986.

EPIC reorganization plan filed with court

FEB 8 1986

Compiled from staff and wire reports

WASHINGTON (UPI) — Investors in Equity Programs Investment Corp. (EPIC) and another group working closely with the bankrupt Falls Church, Va., real estate syndicator filed a proposed plan of reorganization Thursday in U.S. Bankruptcy Court in Alexandria, Va.

The plan provides for an orderly sale of 20,000 homes owned by partnerships controlled by EPIC over five to seven years, the investors committee said. EPIC's holdings include about 3,000 houses in San Antonio. Its 350 partnerships filed Chapter 11 bankruptcy in September after defaulting on payments on mortgages and mortgage-backed securities.

The plan — a blueprint for settling EPIC's debts — must be approved by several mortgage insurance companies that insured mortgage-backed securities for which EPIC houses were collateral, the majority of EPIC limited partners who invested in the houses as tax shelters, the majority of the mortgage-security holders (mainly thrift institutions) and the federal bankruptcy court.

In a statement, the investors committee also said the Maryland Deposit Insurance Fund agreed to the terms of the plan in October.

The fund is the state-appointed conservator of Community Savings of Bethesda, Md., parent company of EPIC. The Wall Street Journal reported that a court-appointed attorney for EPIC also has agreed to the plan.

The plan hinges on the approval of the mortgage insurers with the greatest liabilities — TMIC Insurance Co. of Los Angeles, Republic Mortgage Insurance Co. of Chicago and MGIC Investment Corp. of Milwaukee. The Wall Street Journal reported Friday that TMIC, a subsidiary of Ticor, was the major stumbling block to final agreement because it may get enough back to meet its EPIC mortgage claims, which total $162 million.

For the proposed plan to work, the bankruptcy court must approve it by April 30, the committee said in its statement.

FEBRUARY 28, 1986

FEB 28 1986

Mellon Bank may buy Community S&L

ANNAPOLIS, Md. — Mellon Bank of Pittsburgh is negotiating to buy Community Savings and Loan Association if a proposed deal with another Pennsylvania institution falls through, Gov. Harry Hughes said Thursday. Community, based in Bethesda, Md., is parent company of Equity Programs Investment Corp. (EPIC), a bankrupt residential real estate syndicator that owns 3,000 rental houses in San Antonio. The chief suitor for the Maryland thrift is PSFS Savings Bank, a Philadelphia financial services company and one of EPIC's largest creditors. Hughes said at a news conference that it appears PSFS has "overcome most of the regulatory issues" that have been holding up federal approval of the purchase of Community, a defunct savings and loan with $322 million in deposits. The major issue remaining to be resolved, he said, is the requirement by the Federal Home Loan Bank Board that PSFS buy another ailing savings and loan association that is a member of the Federal Savings and Loan Insurance Corp. before it can get approval to buy Community.

MARCH 15, 1986

Community sale on hold

ANNAPOLIS, Md. — Gov. Harry Hughes said Thursday it will be several days at least before he will know whether the state can negotiate an acceptable deal with Mellon Bank Corp. to purchase Community Savings and Loan Association. Community is the Bethesda, Md.-based parent company of Equity Programs Investment Corp., or EPIC, a bankrupt real estate syndicator that owns 3,000 houses in San Antonio. Hughes said he hasn't made a decision whether to accept the Mellon bid because the deal hasn't been wrapped up yet.

MARCH 25, 1986

Mellon Corp. agrees to buy EPIC parent

ANNAPOLIS, Md. (AP) — Mellon Bank Corp. agreed Monday to buy the deposits of bankrupt Community Savings and Loan Corp. and open the suburban Washington, D.C. thrift as a commercial bank.

But the Pittsburgh-based bank holding company, the nation's 11th-largest, repeated that it would not complete the acquisition unless the Maryland General Assembly approved legislation to allow Mellon to buy bank holding companies in Maryland.

The acquisition would give 20,135 depositors immediate access to about $324 million in funds that have been frozen since the state took control of Community last August.

As part of the deal, the state will put up $131 million to cover Community's liabilities to Equity Programs Investment Corp. (EPIC), its bankrupt tax shelter subsidiary. EPIC holds about $1.4 billion in 20,000 residential mortgages nationwide, including 3,089 houses in San Antonio.

EPIC had borrowed from Community Savings to make up for cash shortfalls and was pushed into bankruptcy when federal officials ordered Community to stop making it loans.

A committee of EPIC's largest creditors has drafted a liquidation plan, which is to be assessed by a federal bankruptcy judge April 16. Under the plan, the 20,000 houses would be sold off over five to seven years.

During this period, EPIC's mortgage insurers would make advances to cover 8.5 percent annual interest payments on the mortgages. The interest payments ensure that holders of the mortgage securities, do not have to write down

Please turn to EPIC/**A12**

EPIC: Mellon seeking legislation

EPIC/from **A9**

their investments.

As for the bank takeover, Mellon must receive approval from state and federal regulators, and the state-appointed conservator.

J. David Barnes, president of Mellon, told a news conference on Monday that Mellon would not complete the deal without the interstate banking legislation.

Although the legislation has run into opposition in the state Senate, the measures have gained the su port of Senate President Melvi Steinberg. The two banking bil have passed the Maryland House Delegates and are now awaiti Senate action.

Community is the second-large of four thrifts where there is freeze on withdrawal of funds. Th state is in the process of liquidati the largest, Old Court Savings a Loan of Baltimore, and is attemp ing to sell the other two.

Gov. Harry Hughes said that the Mellon deal goes through, on about $700 million will remain thrifts where there are restrictio on withdrawal of deposits.

In addition, the state will guara tee Mellon against losses that mig arise.

Mellon will pay the state $14 mi lion as a premium for the deposits expects that Community custome will leave in their accounts in t new Mellon Bank of Maryland a will put up $23.5 million to capit ize the new bank.

MAY 9, 1986

EPIC reorganization plan goes on books

By JANE BAIRD
Staff writer

MAY 9 - 1986

A reorganization plan for Equity Programs Investment Corp. has been approved by a federal bankruptcy judge, and the plan will become effective Monday, a lawyer who represents EPIC's largest creditors said Thursday.

Tenants in EPIC's approximately 20,000 rental houses will be unaffected by the plan, Washington lawyer William J. Perlstein said in a telephone interview. Partnerships controlled by EPIC own 3,089 houses in San Antonio.

Leases will remain as is, Perlstein said, and the plan provides that all tenant security deposits will be paid in full. If the deposits came due during the bankruptcy, they will be paid shortly. Others will be paid as they come due according to the tenant's contract, he said.

EPIC is a Falls Church, Va., real estate syndicator that filed under Chapter 11 bankruptcy last year on behalf of hundreds of its limited partnerships that had become unable to make mortgage payments.

Under the reorganization plan, the houses will be sold gradually over the next five to seven years. "Tenants are not to be nervous that the houses will be sold out from under them. They will have the opportunity to stay for some time," said John Koskinen, president of Palmieri Co. Palmieri, headquartered in Los Angeles and Washington, is acting as asset manager for the next few months, until the workout committee

Please turn to EPIC/F10

EPIC: Reorganization approved

EPIC/from F1

9 - 1986

elects a permanent manager.

Palmieri is mailing letters to a sample 600 tenants, including some in San Antonio, to determine their interest in buying the houses, Koskinen said. If a tenant expresses interest, the company will obtain an appraisal to determine the sale price and proceed with the sale, he said.

Renters in some of the houses, where the partnerships are in bankruptcy, will have to wait a longer 90-day period for certain legal steps before being able to start purchasing their houses, Koskinen said.

Furthermore, if the sale price of the house turns out to be lower than the remaining mortgage on the property, then Palmieri must obtain pre-approval from the committee of EPIC's lenders, he said. "We plan to get that turnaround in about a week."

Tenants who are interested in buying their houses but have not received a letter should contact the EPIC office in San Antonio, Koskinen said. The houses are being offered to the tenants before being placed on the market, because "it is the most efficient way to proceed," he said.

Under the reorganization plan, the mortgage insurers for the houses will make advances of about 6 percent of the mortgage each year, Perlstein said. This will be merged with about 2.5 percent collected in net rents, making an 8.5 percent annual payment to the lenders, he said.

If a house is sold for 100 percent value of the mortgage, then the insurers will get their advances back. If it is sold for less, the insurers will pay the lenders whatever remains on the policy, Perlstein said.

The largest insurers for EPIC properties were Mortgage Guaranty Insurance (MGIC), Ticor Mortgage Insurance and Republic Mortgage Insurance, the lawyer said.

"To have the reorganization for a $1.5 billion company done in seven and a half months was beyond anybody's fondest hopes, but all fell into place," Perlstein said.

MAY 14, 1986

Depositors gaining access to funds as S&L reopens

MAY 1 1986

WHEATON, Md. (UPI) — The 20,135 depositors in the failed Community Savings and Loan will gain access to their $330 million in deposits for the first time in months when the thrift reopens today under new ownership and a new name.

The state of Maryland is paying $131 million to Mellon Bank of Pennsylvania to unload the Bethesda-based thrift, which will be called Mellon Bank of Maryland.

"Our obvious and highest priority is to give immediate, simple and easy access for depositors who have been cut off from their funds for eight long months," said Barrie G. Christman, president of the new bank.

Community, a state-insured institution stung by the 1985 Maryland savings crisis, went into throes of death when its Equity Programs Investment Corp. real estate syndications subsidiary was declared insolvent. Partnerships controlled by EPIC own 20,000 houses around the country, including 3,089 in San Antonio.

EPIC is undergoing a reorganization plan to sell its houses gradually over the next five to seven years. Once the properties are sold, the state of Maryland estimates it will recover $60 million to $80 million.

UNITED PRESS INTERNATIONAL

MARYLAND GOV. HUGHES
Bad news for some depositors.

Maryland Gov. Harry Hughes said that depositors with accounts over $100,000 at Community could receive the uninsured portion of their deposits only from the sale of EPIC assets, if any funds were left over.

Federally insured Mellon, the nation's 11th largest bank with $33.4 billion in assets, last week received federal approval to convert eight of Community's branches in Montgomery, Prince George's and Howard counties into full-service banks.

Mellon is buying only Community's assets of $179 million, including a portfolio of loans valued at $145 million. Mellon would not buy Community's corporation because another $150 million of Community's assets are tied up in EPIC.

The Mellon deal provides that $131 million from the Maryland Deposit Insurance Fund, which insured Community, go to Mellon to offset part of the money tied up at EPIC.

Mellon, in turn, will invest $23.5 million into Community's eight branches and will double its employee base from 50 to 100 workers. It is also paying the state $14 million to offset losses at Community and has offered jobs to all current employees of Community.

MAY 21, 1986

Amended suit filed against Ray Ellison

An amended $50-million-plus lawsuit has been filed against Ray Ellison Homes Inc. on behalf of more than 600 homeowners living in 27 Ellison subdivisions who claim they were defrauded by the developement corporation.

The amended petition, filed Tuesday in state district court by attorney Pat Maloney Sr., alleged that Ellison "defrauded" each of the complaining homeowners by selling them homes in each given subdivision "under the guise and pretext that each subdivision would be an owner-occupied residential neighborhood."

"After selling as many homes as possible in each subdivision at inflated market prices, Ellison intended to and did, in fact, sell off large numbers of unsold homes to non-resident, institutional investors for use as low income rental properties," the lawsuit stated, "thereby debauching and stigmatizing the quality of the neighborhood."

As a result, the lawsuit alleges, the "inordinately large number" of rental homes have "ruined" the neighborhoods and adversely affected the market values of the homeowners' residences.

> *"The initial class-action lawsuit was filed in October on behalf of 151 owners of homes and asked for about $20 million in damages."*

The lawsuit also accuses Ellison of knowingly concealing from the homeowners the "preconceived intention" of selling off unsold homes to institutional investors for rental purposes.

The initial class-action lawsuit was filed in October on behalf of 151 owners of homes in the Vista, Hidden Meadow, Miller's Point, Crownwood, Sunrise and Hidden Cove subdivisions and asked for about $20 million in real and exemplary damages.

Tuesday's amended lawsuit added homeowners and asked for actual damages, as well as at least $50 million in exemplary damages.

JULY 25, 1986

Bad times mean good business for Ontra

By **STEVEN H. LEE**
Staff writer

The business of bad business has been good for the Ontra Cos., something with which company president Jack Hazzard says he's not altogether comfortable.

Austin-based Ontra, with an office in San Antonio, has made a business out of troubled real estate — helping developers and lenders work out practical solutions to foreclosure and bankruptcy and, if all else fails, assisting lenders in the management or sale of distressed property.

"For us, it's a good business," Hazzard says. "But we don't really look at ourselves as vulture capitalists. We are consultants and managers, and are there to help people make the best of the times."

It's a sign of the times that Ontra's business has been so good. As real estate foreclosures and bankruptcies have mounted, Ontra has built its client list to include about 200 financial institutions across the nation.

Founded almost three years ago, Ontra now has about 60 employees in offices in Austin, Dallas, Houston and San Antonio. The local office, in the Nowlin building at 9311 San Pedro, was opened about eight months ago and has four employees, Hazzard says.

And Onstat Studies Group, Ontra's education division, next month is sponsoring a week-long conference on dealing with distressed real estate that is expected to draw up to 300 participants in each of three sessions. The registration fee is $500 per person, per session.

The conference, Aug. 4-8 at Lincoln Galleria Hotel in Houston, is titled, "Workouts, Foreclosures and Bankruptcies: Problems and Opportunities," and will attract some state and national authorities on the subject.

They include Eugene S. Isaacs, president of EPIC Realty Services, which manages hundreds of single-family homes in San Antonio and Houston controlled by bankrupt Equity Programs Investment Corp.; Joseph M. Melton, who managed the liquidation of Penn Square Bank for the Federal Deposit Insurance Corp., and J. Tull Westmoreland, who is heading the rebuilding of Houston's Mainland Savings, which was the largest S&L failure in history.

Hazzard says his business evolved out of a Texas marketplace bothered by problem real estate loans.

He had been an Austin builder-developer and investor for more than 10 years, and was president of First American Data, a construction computer software company, when First Federal Savings of Austin approached him about helping with real estate loan workouts. What began as a project soon turned into a full-time job.

Ontra, its name taken from the French word "entre," meaning "between," acts as an arbitrator between lenders and distressed-property owners to head off foreclosure or bankruptcy, and aids lenders in property disposition.

JUL 25 1986

> *We don't really look at ourselves as vulture capitalists. . . We are there to help people make the best of the times.*
>
> **JACK HAZZARD**
> President, Ontra Cos.

"We are trying to make more people aware of how they can interface with lenders, and doing everything we can to keep (property) from foreclosure," Hazzard says. "In that process, it's in both parties' interest to keep it from foreclosure. It (foreclosure) has put a lot of lenders in a builder-developer-investor role that they are not used to."

Since that is not a role relished by lenders, a majority of Ontra's clients are financial institutions wishing to avoid being saddled with large amounts of distressed property. To that end, Ontra's most valued contribution is as an experienced third party, Hazzard says.

"We try to give both parties an awareness of the situation," he explains. "A lot of times, the people have gotten so deeply involved in the forest, and got used to thinking about it when times were better. Our perspective is to project a sense of reality."

Being active in each of the state's major markets, Hazzard observes that San Antonio's foreclosures have been lower per capita than in Houston and Dallas, but only slightly lower than in Dallas.

He said there no longer is an identifiable state economy — rather, separate regional economies within the state with each region having its own problems. While San Antonio has an overabundance of multifamily residential units and retail space, Austin's oversupply mostly is in office space, Hazzard says.

When asked whether there will come a day when Ontra's services no longer are needed, Hazzard replies, "I hope so. But I think our services will continue to be needed in terms of evaluating loan portfolios and evaluating the real risk that S&Ls are taking.

"There's no question that real estate is cyclical," he said. "One, there's an extreme overbuilt condition because Texas was such a positive market and so many people came here. And secondly, there's the oil crisis. But oil, with a rise in prices, could be the catalyst for an upturn."

NOVEMBER 22, 1986

EPIC default cure accord reached

Insurers of most of the 20,000 mortgages held by bankrupt Equity Program Investment Corp. (EPIC) have agreed to put $43.3 million in escrow to cure the mortgage loan defaults on the properties, a move which will clear the way for their liquidation.

Partnerships controlled by Virgina-based EPIC own about 3,000 rental homes in San Antonio, but sale of those houses is unlikely in the near future because of the soft real estate market here, an EPIC spokesman said Thursday

"The houses in Houston and San Antonio will probably be the last to see a market where they can be sold at a reasonable price," said Dan Sullivan, an EPIC spokesman in Washington, D.C. "There are other properties (elsewhere where the markets) seem to be in pretty good shape that we'll want to sell more quickly."

The escrow decision is the most recent step in implementing a liquidation plan reached Oct. 17 between a committee of EPIC investors and the Maryland State Insurance Fund, which is conservator of EPIC's parent company, Community Savings & Loan of Bethesda, Md.

The liquidation plan, which still must be approved by a federal bankruptcy judge in Alexandria, Va., is expected to take about five years to complete, Sullivan said.

If the liquidation plan is approved by the court, the money will be used to bring current the loans which went into default in October.

JANUARY 10, 1987

SAN ANTONIO

Ellison trial date in question

The trial of a lawsuit filed by a group of homeowners against Ray Ellison Homes Inc. is scheduled to begin Monday in 285th District Court. Attorneys for Ellison, however, Friday said the trial has been postponed until Sept. 8 because of conflicts in Judge Solomon Casseb's schedule, who is schedule to preside over the trial. As of late Friday, court administrators had not received an order from Casseb changing the trial date. In the lawsuit, filed in October 1985, homeowners in six Ellison subdivisions charged the company defrauded them by selling surplus houses to an investment group that used them as rental properties. The rental program, homeowners charged, lowered property values in the areas. They seek unspecified actual damages and $20 million in punitive damages. Ellison officials have denied the charges, saying the company would lose as much as homeowners if the charges were true.

JANUARY 13, 1987

Ellison Homes lawsuit delayed until Sept. 8

The trial of a fraud lawsuit against Ray Ellison Homes Inc was formally delayed until Sept. 8, although an offer has been made to settle the case out of court.

District Court Judge Solomon Casseb announced the delay at 9 a.m. Monday in 285th District Court, where the trial was scheduled to begin.

The lawsuit, brought by homeowners in six Ellison Homes subdivisions, charges the company drove down property values by selling large numbers of houses to a real estate syndicate that packaged them as rental properties. Homeowners were not told the houses were being sold to the syndicator, the lawsuit charged

Ellison Homes officials have denied all of the lawsuit's claims, and said the company would be hurt as much as homeowners if it were true

The Light reported Sunday that Ellison Homes has offered to pay up to $6 million to settle the lawsuit out of court. Attorneys and homeowners in the case are under a court order prohibiting them from talking about the case.

JANUARY 31, 1987

Ellison lawsuit meeting held

JAN 31 1987

District Court Judge Solomon Casseb met with attorneys behind closed doors in a multimillion-dollar fraud lawsuit brought by a group of homeowners against Ray Ellison Homes Inc.

A public hearing was scheduled for 9 a.m. Thursday in 166th District Court to determine whether attorneys for the homeowners could drop 106 clients from the lawsuit. The 106 failed to file required paper work and were notified at least twice that they would be dropped from the lawsuit.

The hearing, however, was not held. Instead, Casseb met with lawyers in his chambers for nearly one hour. Casseb refused to allow reporters into the meeting.

> *Casseb refused to allow reporters into the meeting.*

After the lawyers left, Casseb said he didn't know anything about a hearing. Notice of the hearing was sent by certified mail to all 106 clients. The order setting the hearing was signed by Raul Rivera, presiding administrative judge.

Casseb declined to comment on what was discussed.

"The gag order is still in effect," Casseb said.

Casseb has clouded the Ellison Homes case in secrecy by issuing a gag order that prohibits anyone involved in the case from discussing it with outsiders. The gag order was part of an order concerning a $6 million settlement offer made by Ellison Homes. That offer remains pending.

The lawsuit alleges Ellison Homes defrauded 894 homeowners by selling houses in their neighborhoods to a real estate syndicate, which used them as rental properties. Ellison Homes did not tell homeowners about the syndicate sales, which drove down property values in the neighborhoods, the lawsuit claims. Ellison Homes has denied all of the lawsuits' claims.

FEBRUARY 3, 1987

Ray Ellison Homes Inc. hit with three additional lawsuits

FEB [illegible] 1987

By DAVID J. SHAFFER
Staff Writer

Three new lawsuits charging Ray Ellison Homes Inc. with fraud in selling homes to a real estate syndicate have been filed in the past 45 days.

The lawsuits make claims nearly identical to those in a lawsuit involving 894 homeowners. Ellison Homes has offered to pay up to $6 million to settle that case, setting aside $1 million to cover future lawsuits. Homeowners, who would receive an average $3,580, have not yet been paid, one source said.

Ellison Homes has filed court papers denying all the claims in one case, and has not responded to the other two cases.

Major L. and Mary L. Kidd filed their lawsuit Jan. 26, shortly after hearing about the Ellison Homes lawsuit, said Maria Teresa Herr, their attorney.

Jack Willome, president of Ellison Homes, said "other than being a similar cause of action, I don't believe (the cases) are related at all."

Sherrill M. and Lorine E. Hume filed lawsuit Wednesday, but negotiations in their case have been pending several months, said Abraham Ribak, their attorney.

Frederick Woodson was involved in the original lawsuit, but said he dropped out in late 1985 because he wasn't certain his property had declined in value.

However in the spring of 1986 he received an appraisal from the Bexar County Appraisal District significantly below the purchase price, Woodson said. He found a new attorney and filed a lawsuit Dec. 24.

All three lawsuits charge Ellison Homes defrauded the homeowners by selling houses in their neighborhoods to a real estate syndicate below the normal selling price. The syndicate, Equity Homes Investment Corp., used the houses as rental properties, driving down property values in the neighborhoods, the lawsuits charge.

In addition to the EPIC charges, the Humes also allege certain construction and design defects, and seek unspecified damages. The Kidds ask that Ellison buy their home back from them. Woodson seeks unspecified damages.

MARCH 4, 1987

Lawsuit involving Ellison moving to Dallas for trial

MAR 4 - 1987

The massive civil lawsuit filed by purchasers of Ray Ellison homes has been ordered transferred to Dallas after attorneys for the home builder, Ray Ellison Homes Inc., argued that excessive local publicity would prevent the company from receiving a fair trial in Bexar County.

Employees in District Clerk David Garcia's office were working furiously Tuesday to prepare the pounds of legal documents that have been accumulated in the case for shipment. Garcia said he hopes to get the materials to Dallas before the week ends.

The order for a change of venue was signed by retired District Judge Solomon Casseb Jr. Jan. 20, several days after The Light reported that the Ellison firm was offering a $6 million out-of-court settlement to the 894 homeowners who brought the lawsuit.

Copies of that news story, dated Jan. 11, were attached to the motion to move the trial out of Bexar County, along with two other articles about the lawsuit which appeared in The Light in 1986.

Jack Willome, president of Ray Ellison Homes, and several others signed identical affidavits claiming that publicity about the case "has resulted in a widespread community feeling that by offering to settle Ellison has acknowledged liability.

"Moreover, as a result of the order of confidentiality imposed by the court, Ellison did not have an opportunity to present its position with respect to the settlement," the affidavits states.

In the lawsuit, disgruntled homebuyers claimed fraud through alleged loss of property value when surplus homes in their neighborhoods were sold to investors for rental property.

According to The Light's Jan. 11 article, attorney Pat Maloney was urging the homeowners to accept 8 percent of the contract price of their homes as a damage settlement. That would mean an award of $5,600 on a $70,000 home.

At a meeting of homeowners, he said at least 800 of the 894 plaintiffs would have to agree to the settlement for the deal to go through.

MARCH 7, 1987

Homeowners in Ellison suit receive checks; case still on

By DAVID J. SHAFFER
Staff writer

MAR 7 - 1987

Most of the homeowners involved in a multi-million dollar fraud lawsuit against Ray Ellison Homes Inc. have received settlement checks, The Light has learned.

The case is not over, however, because at least one homeowner rejected the settlement offer and a new group of homeowners with a new lawyer have asked to join the suit.

Under the $6 million settlement, as

Please turn to ELLISON/C2

ELLISON: Most homeowners accepted

ELLISON/from C1

MAR 7 - 1987

The Light reported in January, homeowner-plaintiffs receive approximately 8 percent of the home's original purchase price. The suit claimed property values dropped in some subdivisions because Ray Ellison Homes sold houses in them to a real estate syndicate for use as rental houses.

Ray Ellison Homes denied all claims in court documents and declined comment Friday. Attorneys for the homeowners did not return phone calls. Retired District Judge Solomon Casseb Jr. has placed a gag order on everyone involved in the suit.

The settlement sets aside $1 million to pay claims in any other suits making similar claims. Several such suits have been filed in recent months. Abraham Ribak, a San Antonio attorney, petitioned on Feb. 20 to add 11 names to the original suit.

"I'm representing quite a few families and individuals and some are named in the intervention and others are yet to be named," Ribak said.

"I think really these people (I filed for) got ripped off," and should be compensated, Ribak said. "Whoever has legitimately been damaged by this action, they are entitled to their day in court."

If neither Ray Ellison Homes nor the Maloney group objects, those people will be added to the original suit, Ribak said. He said he will file a separate suit if the original suit is dropped because of the settlement.

Settlement checks began going out in early February. Homeowners went to Patricia Maloney's law office on Woodlawn to receive their checks. A copy of one of those checks, obtained by The Light, showed how payments were distributed: One-third went to the homeowners' attorneys — Pat Maloney Sr., Pat Maloney Jr., Patricia Maloney and Barry Snell; $250 from each check paid the Maloney group's expenses; the remainder went to the homeowner.

The Maloney group is expected to receive approximately $1.6 million from the settlement.

All but a few homeowners in the case accepted the settlement, said several sources close to the case. In secret meetings held in early January to explain the settlement offer, Pat Maloney Sr. told homeowners that 800 of the 894 participants would have to accept the settlement before anyone got paid.

Pat Maloney Sr. also urged homeowners to accept the settlement offer, saying he would withdraw as the attorney for anyone that did not accept it.

The Maloney group has not withdrawn as attorneys for the homeowners who were paid. On Feb. 9, the Maloney group did drop a group of homeowners from the suit because the homeowners were several months behind in paper work for the case.

A hearing was scheduled, but not held, Friday on the Maloney group's request to withdraw as attorney for Jimmy "Scott" Strong, who said he rejected the settlement offer. The hearing was not held because none of the attorneys showed up, said Raul Rivera, the presiding civil judge.

The Maloney group "dropped us because we didn't accept the settlement," Strong said. He said he didn't know if he was the only homeowner to reject offer.

Strong said he didn't accept the settlement because he didn't think the terms were fair.

"When you're going to lose $20,000 when you sell the house, which my Realtors tell me I'm going to do . . . the terms of the settlement just wasn't enough."

In January, Ray Ellison Homes, citing articles by The Light about the case, claimed the company could not get a fair trial in San Antonio. Judge Casseb agreed and ordered the case moved to Dallas. Most files in the case have been boxed to be sent to Dallas; one file remained in Rivera's court for Friday's hearing.

Strong said he will pursue the case, but that he must find an attorney to handle the case in Dallas.

SEPTEMBER 29, 1987

New company to take over management of EPIC assets

By PATRICIA KONSTAM
Business editor

A new company will take over management Thursday of the assets of bankrupt Equity Programs Investment Corp., the Virginia-based real estate syndicate that owns 15,000 rental houses, including 2,800 in San Antonio.

But previously announced plans to sell the houses gradually over a five- to seven-year period have not changed, an official of the new company reiterated Monday.

The possibility that EPIC, as the syndicate is called, might suddenly flood the market with used houses has been a concern in many Sun Belt cities since the syndicate's financial problems surfaced more than two years ago.

"Our goal is to have orderly distribution of the property (sales) over five to seven years, so we don't dump them (on the market) at one time. We want to maximize proceeds on the sale of the properties," said Stephen Frank, executive vice president of Skyline Financial Services Corp., the company that now manages the investment partnerships EPIC once controlled.

Skyline Financial is one of three subsidiaries of SKL Holdings, the new company set up to manage EPIC's business after the syndicate's reorganization plan was approved by a Virginia bankruptcy court in May 1986 and its liquidation plan was approved in October.

Technically called a "workout trust," Frank said, SKL reports to a "workout committee" representing EPIC's lenders, limited partners and mortgage insurers who insured its mortgage-backed securities sold to financial institutions.

EPIC filed bankruptcy for its 350 partnerships in September 1985 after failure to pay $1.5 billion in payments due on mortgages and mortgage-backed securities.

The other two subsidiaries of SKL Holdings, Frank said, are Skyline Mortgage Co., which manages EPIC's mortgages, and EPIC Realty Services Inc., a property management company that did not file bankruptcy. EPIC Realty, which has offices in San Antonio and other cities, manages EPIC's houses.

SKL Holdings, headed by new chairman and chief executive officer Stuart McFarland, Thursday will take over management of EPIC's assets from the Palmieri Co., a turnaround specialist hired last year as a temporary asset manager.

To help dispose of EPIC's houses in an orderly fashion, favorable financing has been made available to encourage renters to buy their houses, and certain houses are periodically listed for sale through local real estate brokers, Frank said in a telephone interview from SKL's Falls Church, Va., offices.

San Antonio had about 2,800 EPIC houses as of July 31, most of them rented, he said. Two years ago, EPIC partnerships owned almost 3,100 houses here. Frank said he did not know how that number had been reduced.

As leases expire, some of the houses are being offered for sale, while others, deemed not good candidates for rental or sale, are being deeded back to lenders, Frank said.

The decision about what happens to a particular house is made in consultation between EPIC Realty managers on the scene and the Falls Church headquarters, based not only on the condition of the house but the terms of the repayment agreement for the particular partnership that owns that house. "It's a very complex workout (repayment) agreement," he said.

JANUARY 20, 1988

Gemcraft takes over top ranking among Bexar homebuilders

ly PATRICIA KONSTAM
lusiness editor

Gemcraft Homes surpassed Ray Ellison Homes in December as the most active homebuilder in Bexar County, while Richmond American Homes, a newcomer to this market in 1987, moved up to third place, Holmes & Shaw Inc. Real Estate Information Services said in its monthly housing report.

However, only 226 new-home sales were recorded at the Bexar County Courthouse during December, the lowest monthly figure in the three years Holmes & Shaw has tracked sales, editor Ray G. Van Cleave said in the residential edition of the company's Metro Report.

In the same month a year ago, 398 new homes were sold. In November, the figure was 237.

The record low came at the end of a year that was very difficult for homebuilders, as the growing number of foreclosed houses boosted the market for existing homes and reduced the share left to builders, Van Cleave noted.

Existing houses rose to 74 percent of total sales in the county in 1987 from 66 percent in 1986 and 61 percent in 1985, the report said.

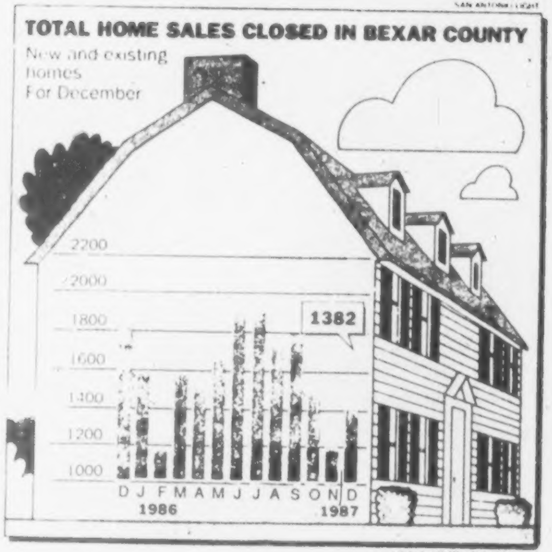
In December, 1,113 existing homes were sold, of which 246, or 21 percent, **were sales** of repossessed houses **by** lenders.

The December figure rose from [illegible] in November but was down from 1,326 existing-home sales a year earlier.

The monthly gain pushed total home sales to 1,382 in December from 1,196 in November. A year ago, the total was 1,805.

Please turn to GEMCRAFT/D2

SAN ANTONIO LIGHT



SOURCE: HOLMES AND SHAW INC

GEMCRAFT: Takes top ranking in Bexar County

GEMCRAFT/from **D1**

For the year, the total number of sales was 18,693, down 12 percent from 21,169 in 1986.

Of the 1987 total, 4,241 sales were new houses; 13,895 were existing houses; and 557 were condominium units.

In 1986, the total included 6,509 new houses; 13,996 existing houses; and 664 condos.

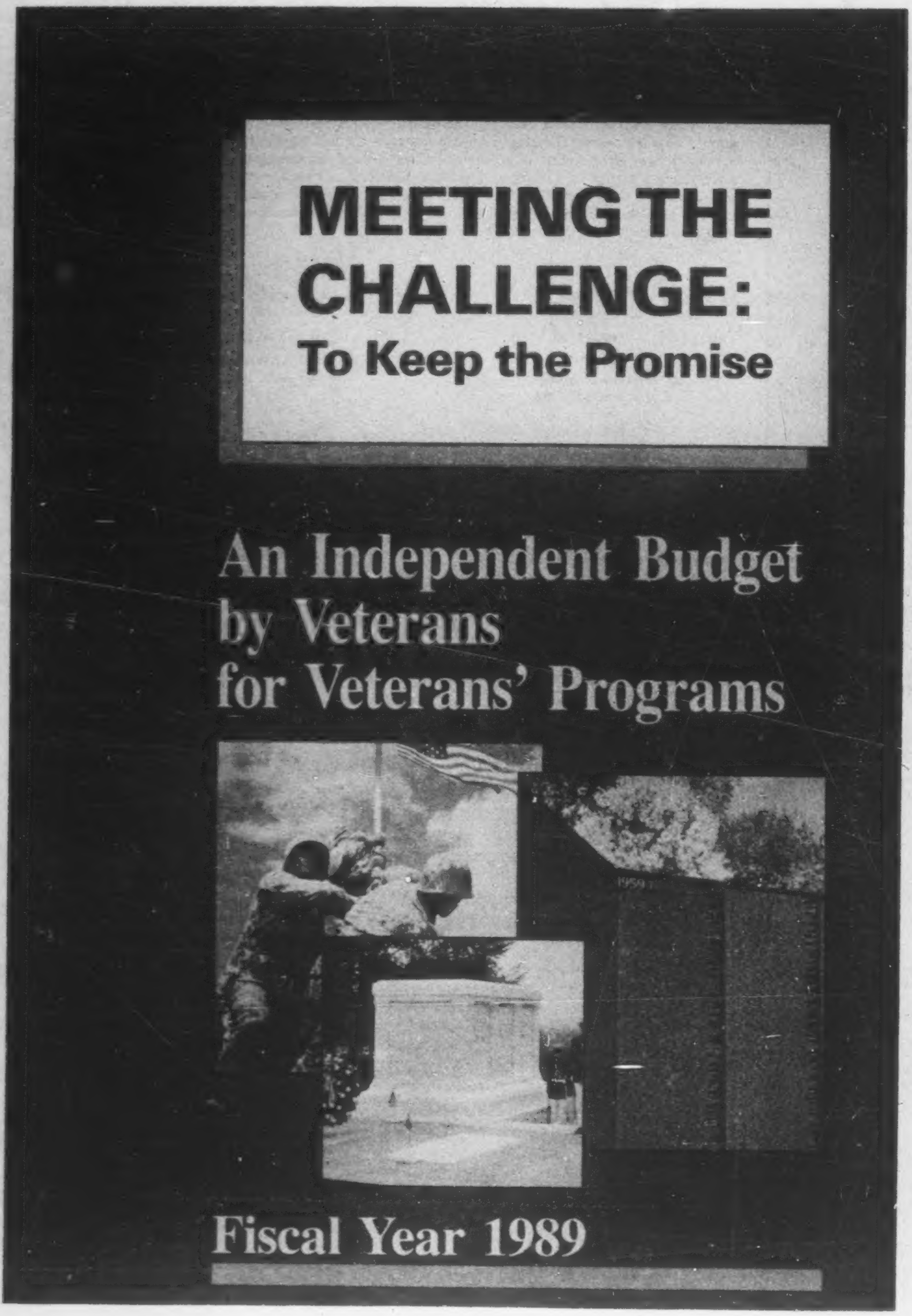
Van Cleave credited sales of repossessed houses with holding existing home sales steady for the year.

"Without them, the figures would have been much worse in 1987," he wrote.

In commercial real estate, sales and construction permits fell while foreclosures increased in 1987, editor Ken Loehman said in the commercial edition of Metro Report.

The number of commercial property sales declined 18 percent to 2,212 in 1987 from 2,698 in 1986, the report said. Lenders took back a record 421 commercial properties in foreclosure sales.

Loehman predicted that "1988 will start slowly, but the last half should be fairly strong with more emphasis on retail and hotel construction in the Sea World area."



MEETING THE CHALLENGE:

To Keep the Promise

An Independent Budget
by Veterans
for Veterans' Programs

Fiscal Year 1989

Prologue

This budget proposal is respectfully submitted to the Congress, which, over past years, has labored hard and long to provide an adequate budget for veterans' programs. This document, covering the main issues in the Veterans Administration's Annual Budget, is the product of a combined effort of four major Congressionally chartered veterans' service organizations. This unprecedented collaborative effort connotes a final loss of confidence in OMB's intention or ability to address veterans' issues objectively or to support the moral and legal obligations that this nation has accorded the men and women who have served our country.

James B King

James B. King
National Commander
American Veterans of World
War II, Korea and Vietnam

Gene Murphy

Gene A. Murphy
National Commander
Disabled American Veterans

John H. Michaels

John H. Michaels
National President
Paralyzed Veterans of America

Earl Stock Jr

Earl L. Stock, Jr.
Commander-in-Chief
Veterans of Foreign Wars
of the United States

Photographs courtesy of the National Park Service.

SPONSORS

Blinded Veterans Association
Military Order of the Purple Heart

PATRONS

American Association of Spinal Cord Injury Psychologists and Social Workers
American Association of Spinal Cord Injury Workers
American Nurses Association
American Paraplegia Association
Association of American Medical Colleges
National Association of VA Physicians

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THE BUDGET IN BRIEF

This is a veterans' budget for veterans developed by four major Congressionally chartered veterans' service organizations (VSOs): AMVETS, the Disabled American Veterans (DAV), the Paralyzed Veterans of America (PVA), and the Veterans of Foreign Wars (VFW). In this budget, we have been both fiscally prudent in our recommendations and responsive to veterans' real needs in our proposals.

THE CHALLENGE

Three principal challenges shape our budget this year. One is the increasing demand on VA programs that stems from the aging of the veteran population. The largest group of veterans, the World War II and Korean War generations, is now rapidly reaching age 65 and over—ages at which health care needs and death rates increase dramatically. This aging process, the first challenge, results in a need for more services from the VA's health care system and from its cemetery and memorial affairs programs.

The second challenge facing the Independent Budget this year is the climate of extreme austerity that currently characterizes the entire federal budget.

The third challenge is that of veterans' unmet need for VA services. Unmet need appears in the veterans' benefit area, where severe deficiencies are found in services provided to veterans; these result primarily from understaffing of the Department of Veterans Benefits (DVB), the VA unit that administers benefits programs. We have also found evidence of serious unmet need of multiple types in the VA health care system.

OUR STRATEGY

The basic strategy of the veterans service organizations that have authored this Independent Budget is:

- To assure that all veterans receive the benefits and services to which they are entitled;

- To assure that the VA provides these benefits and services in a fashion that is cost-efficient but also timely; and

- To assure the integrity, quality, and coherence of the benefits and services the VA provides.

In light of the need for austerity, an important component of our strategy consists of confining our initiatives to actions dealing with veterans' most urgent needs, and proposing to meet these needs in the most economical fashion possible.

Our overall strategy recognizes that total veteran benefit program costs increase less rapidly than does inflation because of the declining number of program beneficiaries in the largest benefits programs (compensation and pensions). All such savings should be regarded as available to meet the growing need for health care services that arises as the veteran population continues to age.

In the benefits administration area, our strategy is directed primarily at improving the service the VA is providing. We seek service in the adjudication of claims that measures up to standards of timeliness and quality of the late 1970s, as well as comparable improvements in other important service areas. This will require (1) an increase in staff, (2) the installation of appropriate computer systems in the VA and their integration across departments of the VA, and (3) the establishment of needs-directed training programs that will develop, maintain, and upgrade the skills of the benefits program staff.

Veterans are willing to shoulder their share of the burden of deficit reduction. We will thus accept a curtailed cost-of-living adjustment (COLA) in 1989 in veterans' benefit programs if all other federal program beneficiaries—including Social Security recipients—do likewise and if there is a similar curtailment of federal contract cost increases due to COLAs in contractor employees' wages. Otherwise, we call for a full and equitable COLA increase in veterans' benefit programs. Our strategy for benefits also calls for putting the loan guaranty program on a sound financial footing as a VA-operated program.

In the medical programs area, our strategy is to attack current problems of unmet need and to meet growing need in the future by increasing our emphasis on less expensive care modalities. In particular, our recommendation is for more reliance on non-institutional forms of care, which are generally far more economical than are institutional modalities of care. The VA has recently achieved impressive shifts toward non-institutional care in the mix of care it delivers, and our strategy calls for still further shifts in this direction.

Our strategy in VA construction starts with the necessity of maintaining the system of VA health care facilities, assuring that they are in good repair and that functional space is updated to keep up with changes in health care delivery technology and needs. In addition, we call for the development of a system that will realistically assess the need for construction and include a sound system for setting construction priorities. Our strategy also calls for an expansion of the National Cemetery System to make burial plots available in reasonable proximity to veterans' families.

Recent DOD action entitles World War II merchant seamen to veteran's status. Needs for VA benefits and services created by this action are not reflected in this budget.

SPECIFIC RECOMMENDATIONS

Tables I and II show the funding we recommend in the appropriation accounts into which the VA budget is divided. These tables show that most of the increase we recommend is required merely to keep even with rising costs.

Total appropriations for the VA in FY 1987 were $26.6 billion. Just to maintain the same level of program activity in FY 1988 would require $27.1 billion. This concept of maintaining the same level of program activity as in FY 1987 is what we mean by "current services." The dollar increase from FY 1987 to FY 1988 needed to maintain current services (i.e., to maintain the FY 1987 level of services provided) is small—only about two percent, which is far less than general inflation. It is this small because the number of pension and compensation beneficiaries is declining and because federal salaries (the main cost in medical programs) increased by only some two percent. However, providing this small increase is obligatory if the VA is to continue to function in FY 1988 as it did in FY 1987.

Unfortunately, as the tables show, the FY 1988 enacted appropriations total about $55 million dollars less than the FY 1988 current services level (i.e., less than the amount necessary to continue to provide the FY 1987 level of services). We call for appropriation of the additional amount needed to reach the current services level in FY 1988 so that the VA can continue to provide the services it has offered in the past. If these additional funds are not appropriated, a considerable cutback in medical research and in grants to states for extended care facilities will be required.

In turn, the FY 1989 current services level is $28.1 billion, about $1.0 billion above the FY 1988 current services level. The $1 billion increase must be funded just to allow the VA to continue to operate in FY 1989

TABLE I
VA APPROPRIATIONS SUMMARY
(dollars in thousands)

Appropriation Account	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
General Operating Expenses and Misc.	770,500	774,800	776,200	807,700	824,200
Benefits Programs	15,320,600	15,364,300	15,364,300	15,999,820	15,999,820
Medical Programs**	9,990,300	10,400,800	10,452,000	10,842,040	11,119,940
Construction Programs	488,700	522,900	525,800	489,500	541,000
TOTAL VA APPROPRIATION	26,570,100	27,062,800	27,118,300	28,139,060	28,484,960

*Funds necessary to maintain services at the FY 1987 level

**Excludes transfers

TABLE II
VA APPROPRIATIONS BY ACCOUNT
(dollars in thousands)

Appropriation Account	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
GENERAL OPERATING EXPENSES AND MISCELLANEOUS					
General operating expenses	770,500	774,800	778,200	804,700	821,200
Grants for the construction of state veterans cemeteries	0	0	0	3,000	3,000
TOTAL GOE AND MISCELLANEOUS	770,500	774,800	778,200	807,700	824,200
BENEFITS PROGRAMS					
Compensation, pension, and burial benefits	14,422,500	14,334,300	14,334,300	14,793,000	14,793,000
Readjustment benefits	763,300	625,700	625,700	597,600	597,600
Veterans insurance and indemnities	4,800	14,300	14,300	9,220	9,220
Veterans' job training	30,000	0	0	0	0
Loan guaranty revolving fund	100,000	390,000	390,000	600,000	600,000
TOTAL BENEFITS PROGRAMS	15,320,600	15,364,300	15,364,300	15,999,820	15,999,820
MEDICAL PROGRAMS**					
Medical Care	9,712,800	10,120,000	10,168,000	10,540,900	10,818,800
Medical and prosthetic research	192,800	193,000	203,600	209,300	209,300
Medical administration and miscellaneous operating expenses	41,800	47,000	47,500	48,940	48,940
Grants for construction of state extended care facilities	42,400	40,300	42,400	42,400	42,400
Grants to the Republic of the Philippines	500	500	500	500	500
TOTAL MEDICAL PROGRAMS	9,990,300	10,400,800	10,462,000	10,842,040	11,119,940
CONSTRUCTION PROGRAMS					
Construction, major projects	382,700	403,000	403,000	368,000	368,000
Construction, minor projects	80,000	116,000	116,900	117,600	169,000
Parking garage revolving funds	26,000	3,900	3,900	4,000	4,000
TOTAL CONSTRUCTION PROGRAMS	488,700	522,900	523,800	489,600	541,000
TOTAL APPROPRIATION	26,570,100	27,062,800	27,118,300	28,139,060	28,484,960

*Funds necessary to maintain services at the FY 1987 level

**Excludes transfers

as it did in FY 1987 (the definition of "current services"). Supplemental funding of $390 million will be needed to accommodate the COLA increase for compensation recipients.

As part of our computation of the current services level, we include amounts necessary to cover pay raises, and we are recommending these amounts be appropriated in full, at the beginning of each fiscal year—not late and only in part, as has too often been the case in the past, resulting in staffing cuts.

Our total recommended VA appropriation level for FY 1989 is $28,485 million, only about $350 million above the FY 1989 current services level. Thus, as is fitting in an era of austerity, most of the funding increase we recommend is required merely to cover increasing costs, not for new initiatives. Our major recommendations for FY 1989—including managerial recommendations with relatively small budget impact—follow.

Recommendations for General Operating Expenses (GOE) and Miscellaneous Appropriations

- A three-part plan of action to attack the three main causes of severe deficiencies in the quality and timeliness of service provided in veterans' benefits programs. (This service activity is the largest component of GOE.) The plan includes:

  1. Addition of 543 FTEEs (full-time equivalent employees) over the FY 1988 level for administration of benefit programs. The cost of this recommended staff addition is $17 million and it would be divided up among benefit program areas as follows: Compensation, Pension, and Education, 342 FTEE; Vocational Rehabilitation & Counseling, 53 FTEE; Veterans Services, 148 FTEE. We also recommend additional staff for the Loan Guaranty program. Restoration of these positions would reverse only a small portion of the staffing cuts imposed in recent years.

  2. Increased training for benefits program staff, particularly for staff involved in adjudicating applications for benefits. This will improve the quality and increase the nation-wide uniformity of benefits determinations. We recommend 15 staff and $650,000 for a training unit, plus support for the unit from program staff who will help develop educational modules.

  3. Modernization and integration of automated data processing (ADP) systems to increase productivity and provide information flows among VA departments (and across federal agencies) that are needed to ensure timely and accurate benefits services to veterans, with full regard to due process.

- Opening a second VA regional office in Florida.

- $3 million for the state veterans cemetery grants program.

Recommendations for Benefits Programs

- A cost-of-living adjustment (COLA) effective December 1, 1988 that is equal to the COLA in other federal programs. The VSOs are prepared to support a reduced or eliminated COLA if it is applied across the board. We estimate that a full COLA would approximate a 4.5 percent increase.

- Updating the maximum grant amount for specially adapted housing for severely disabled veterans to $40,000 and updating the maximum grant amount for specially adapted automobiles to $5,530, as proposed in pending legislation.

- Legislation to extend the eligibility date for the Veterans' Job Training Program to June 30, 1989.

- A $600 million appropriation for the Loan Guaranty Revolving Fund.

- Increasing the number of direct loans the VA is authorized to make.

Recommendations for Medical Programs

- Restricting program enhancements to medical care (rather than research, administration, or other activities) in light of the need for budget austerity.

- Fully funding cost increases necessary to maintain current services. This is particularly critical in research and grants for state extended care facilities; serious cuts will result in FY 1988 and 1989 if these increases are not funded. Fully funding the current services level in VA medical programs requires approximately $50 million more than has been appropriated in FY 1988 and a further increase of approximately $390 million for FY 1989.

- Rapid expansion of non-institutional long-term care programs in recognition of the particularly rapid increase in demand for long-term care that accompanies aging. This includes increased hospital-based home care; more adult day health programs, community residential care, and geriatric evaluation units; more geriatric research, education, and clinical care centers; more respite care programs and hospices, all at a total cost of $47 million.

- Expansion of nursing home programs, recognizing the inevitability of an increased nursing home census despite rapid expansion of non-institutional long-term care. For FY 1989, we recommend an increase of approximately 3,000 in census in VA, community, and state nursing home programs at a combined total cost of approximately $43 million.
- Rapid expansion of outpatient acute care, to 21.4 million staff medical visits in FY 1989, with provision of $90 million for this purpose, while inpatient care, which is far more costly, is held constant.
- A continued prominent role in AIDS treatment (the VA is treating about 7 percent of all U.S. AIDS patients), funded with an additional $50 million, the increment expected to be required for caring for these patients.
- A survey to determine veterans' unmet need for VA medical care.
- A multi-faceted program to enhance the VA's recruitment and retention of critical health care professionals.
- Placing a floor under resources allocated to VA psychiatric hospitals and services, with the floor at the level of FY 1987 obligations (and adjusted upward annually for payroll and inflation increases).

Recommendations for Construction Programs

- A high appropriation level, $169 million, for minor construction because of the importance of updating and repairing VA facilities, most of which are quite old.
- A low appropriation, $368 million, for major construction because the VA does not have an adequate system for basing construction projects on its needs.
- Prompt development of an adequate system for basing construction projects on VA programmatic needs.
- An appropriation of $3 million to begin to buy land for cemeteries that must be added to the National Cemetery System to enable us to meet proposed new criteria for accessibility to veterans' families.
- $40 million for advanced planning and design funds to keep projects moving swiftly forward.
- $30 million for four new 120-bed VA nursing homes each year. $20 million a year earmarked for conversion of VA hospital beds to nursing home beds.

Legislation

We are submitting, separately, five legislative proposals:

- A proposal to provide entitlement to VA outpatient care to all Category A veterans. These are service-disabled and low-income veterans, and most now have entitlement only to inpatient care. This proposal is estimated to involve no net costs.
- A proposal to enhance the National Cemetery System by providing a cemetery with available burial space in every state and such cemeteries within reasonable distance of major veteran population centers.
- A proposal to provide entitlement to beneficiary travel reimbursement (with a per-trip deductible) to Category A veterans, veterans receiving a compensation and pension examination, and in certain other circumstances.
- A proposal to extend authorization for the state cemetery grants program.
- A proposal to extend the authorization for the Veterans' Job Training program.

Provisions in pending legislation that we endorse and recommend for enactment include:

- Updating the maximum grants for specially adapted housing and specially adapted automobiles for severely disabled veterans.
- Provision of procreative services for veterans with a service connected procreative impairment.

INTRODUCTION

Last year, four major Congressionally chartered veterans' service organizations (VSOs) joined in an unprecedented cooperative effort to develop and present to the Congress a fiscal year 1988 budget proposal addressing the program requirements of the Veterans Administration (VA) Department of Medicine and Surgery (DM&S). It was a "veterans' budget for veterans' health care," independent of the process that builds the President's budget. It was a proactive approach to place on the record the perspective of the Congressionally chartered consumer representatives of our nation's veterans.

That first Independent Budget was well received in Congress, where encouragement was given to make the Independent Budget an annual event. A budget in which VSOs expressed the concerns and needs of our constituents and presented options not contained in the OMB-dominated Presidential budget was welcomed as a source of valuable information. Satisfaction was also expressed with the framework in which realistic and responsible proposals were presented in accordance with the legislative budget process.

Many of the same concerns that motivated the initiation of the Independent Budget project remain with us today. They are detailed in appropriate sections of this publication, and are among the reasons the VSOs are presenting an Independent Budget again this year.

Whereas last year's FY 1988 VSO Independent Budget was limited to the health care aspects of the VA, this year's FY 1989 Independent Budget covers all VA programs. The inclusion of all VA programs this year should increase the Independent Budget's value because there are important interrelationships among the VA's departments and program areas.

The FY 1989 Independent Budget has been developed with an acute awareness of today's fiscal constraints on the federal budget. Congress has always given every consideration to the needs of veterans and provided for those needs in accordance with a fair allocation of available federal resources. The primary purpose of the Congressionally chartered veterans service organizations in presenting this Independent Budget is to provide as objectively as possible a description of veterans' current needs, deferring to the good judgment of Congress to what extent these needs should be met. Resources were sought in last year's Independent Budget for certain program initiatives that were not funded; some of these are included this year with appropriate modifications.

All recommendations of initiatives in the Independent Budget are made in response to very real needs. However, in light of the extremely constrained federal budget situation this year, we have passed over some important initiatives that we feel can be deferred in this era of maximum austerity. The text generally mentions these initiatives, but they are not included in our recommendations for appropriations.

For ease of comparison, the format of this Independent Budget generally follows that of the official federal budget for the Veterans Administration. However, we deal only with accounts for which VA appropriations are required, not with those that are self-financed or financed by other agencies. The text in each broad budget component contains a list of principles and guidelines, statements of the challenges facing the VA, our strategy to address those challenges, and our specific recommendations. Insofar as possible, we have eliminated "boilerplate" verbiage, but we make use of narrative material to explain programs and policies. All policies and recommendations in the Independent Budget have the unanimous concurrence of all participating veterans service organizations.

Legislative proposals described in the Independent Budget are being separately submitted.

We are appreciative of the VA's helpful response to our Freedom of Information request for management data in the public domain. It has enabled us to conduct independent analyses of VA programs and trends, better identify veterans' needs, and make informed judgments regarding the administration of medical and benefits programs, and VA construction. Information on which the views and recommendations contained in the FY 1989 Independent Budget is based was not, however, limited to VA reports. Information from other federal and private sources and studies was also used. In addition, we undertook systematic, in-depth discussions with top management of VA medical centers, and made use of feedback from veteran constituents.

The Congressionally chartered veterans' service organizations thus respectfully submit this fiscal year 1989 Independent Budget proposal for Congressional consideration and look forward to providing further testimony on its behalf.

PRINCIPLES AND GUIDELINES FOR BUDGET FORMULATION

The Congressionally chartered veterans service organizations that developed this Independent Budget are committed to an objective and responsible approach to this, our "veterans' budget for veterans." We have therefore compiled a set of principles for guidance in budget formulation. These include both general principles that apply to the whole Veterans Administration budget and other principles that are identified with specific budget components. All are a reflection of our shared underlying philosophy regarding veterans' programs. The general principles for the entire budget are presented here; those specific to major budget components are presented in the appropriate sections of this Independent Budget.

1. Productivity improvements should not be arbitrarily anticipated in the budget process. Rather, they should only be budgeted based on specifically demonstrated and identified management initiatives that result in actual productivity increases.

2. Payroll cost increases necessary to maintain the FTEE ceiling established in appropriation language should be allowed as a prospective estimate in the budget for the fiscal year in which these payroll cost increases are anticipated. This would permit the complete and most effective utilization of the personnel made available to the VA.

3. There should be no discriminatory denial of Cost of Living Allowances (COLA's). The VSO authors of the Independent Budget have assured Congress of our support in any reduction or elimination of a COLA increase, providing it is applied across the board, involving all federal agencies, accounts, and contracts.

4. VA staff must have the training and continuing education needed to do their job well. Education and training programs also help recruit and retain top-quality professionals. For medical staff, staying up-to-date in the rapidly changing field of health care is vital. The budget should fully support medical education and include the continuation of professional scholarships to improve recruitment and retention of health care professionals in the VA system.

Similarly, adequate funding should be provided for the training necessary to assure adequate numbers of competent adjudication officers, counselors, claim processors, and other administrative personnel to effectively manage veterans' benefits programs and to apply appropriate, nationally uniform standards in benefits determinations.

5. VA facilities should be situated and staffed to serve veterans in the areas of the country where veterans live. For both health care facilities and regional offices, this means a geographic realignment paralleling the major population shift of veterans to the Sun Belt. This shift requires a reallocation of staffing and may necessitate new facilities as well as expansion of existing ones.

6. Programs that serve veterans should be operated by the Veterans Administration, which is the agency charged with providing benefits and services to veterans.

7. The VA must develop and maintain integrated electronic data processing (EDP) systems to accomplish the data flows among its component departments and with other federal agencies needed to provide timely service in meeting veterans' needs. The lack of integration of EDP systems among VA departments is notable and an underlying cause of deficient service currently being experienced in the agency.

GENERAL OPERATING EXPENSES AND MISCELLANEOUS

GENERAL OPERATING EXPENSES AND MISCELLANEOUS SUMMARY

The General Operating Expenses (GOE) appropriation provides the funds for administration of all VA programs and activities except for medical and construction programs. Because of the importance of remedying current deficiencies in this area, we have placed the discussion of GOE and miscellaneous appropriations first in our budget, rather than last, as is conventional.

Table III, "General Operating Expenses and Miscellaneous Appropriations" summarizes our recommendations for appropriations in this group.

We recommend a three-part plan of action to attack the three main causes of severe deficiencies in the quality and timeliness of service provided in veterans' benefits programs. (This service activity is the largest component of GOE.) The plan includes:

1. Addition of 543 FTEEs over the FY 1988 level for administration of benefit programs. The cost of this recommended staff addition is $17 million and it would be divided up among benefit program areas as follows: Compensation, Pension, and Education, 342 FTEE; Vocational Rehabilitation & Counseling, 53 FTEE; Veterans Services, 148 FTEE. We also recommend additional staff for the Loan Guaranty program. Restoration of these positions would reverse only a small portion of the staffing cuts imposed in recent years.

2. Increased training for benefits program staff, particularly for staff involved in adjudicating applications for benefits. This will improve the quality and increase the nation-wide uniformity of benefits determinations.

3. Modernization and integration of electronic data processing (EDP) systems to increase productivity and provide the information flows among VA departments (and across federal agencies) needed to provide timely and accurate benefits services to veterans with full regard to due process. In particular, EDP modernization and integration should:

- Link VA medical centers & regional offices
- Improve quality review and quality control
- Assure due process
- Include common workload and quality measurement systems for veterans benefits (which are administered by the Department of Veterans Benefits, DVB) and the Board of Veterans Appeals (BVA), which hears appeals in this area.

We also recommend opening a second VA Regional Office in Florida.

The principle that guides these recommendations is

TABLE III
GENERAL OPERATING EXPENSES AND MISCELLANEOUS APPROPRIATIONS
(dollars in thousands)

ACCOUNTS	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
General operating expenses (GOE)	770,800	774,800	778,200	804,700	881,200
Grants for the construction of state veterans cemeteries	0	0	0	3,000	3,000
TOTAL GOE AND MISCELLANEOUS	770,800	774,800	778,200	807,700	884,200

*Funds necessary to maintain services at the FY 1987 level simple: Veterans should have timely, effective, and convenient access to the benefits to which they are entitled. In particular, veterans seeking information should be able to obtain it easily, receiving swift, helpful, and accurate responses; veterans applying for benefits should receive needed assistance in doing so and obtain speedy and correct adjudication of their claims; and veterans appealing initial benefit determinations should have their appeals quickly resolved.

The other account in the GOE and miscellaneous group is a small one—the appropriation for grants for state veterans cemeteries. We recommend a FY 1989 appropriation of $3 million and reauthorization of the program for five years (1990 through 1994).

GENERAL OPERATING EXPENSES

The General Operating Expenses (GOE) appropriation provides funding for the administration of all Veterans Administration non-medical benefits and for support functions for the entire agency (except for construction). It includes three activities: (1) the Department of Veterans Benefits, (2) the Department of Memorial Affairs, and (3) General Administration. The Department of Veterans Benefits (DVB) operates a network of 58 regional offices through which all non-medical veteran claims are initiated. The Department of Memorial Affairs (DMA) operates and maintains 111 national cemeteries and 32 other miscellaneous sites. General Administration includes the Administrator's office and all VA-level staff offices which provide management assistance and support to all VA programs (except for construction and procurement-related staff offices).

THE CHALLENGE

Adequate funding for the GOE appropriation is vital to veterans. More than any other single factor, GOE determines the level of service veterans will receive in the delivery of the benefit programs authorized by the Congress. Yet this account, more than any other, has been subjected to budget cuts over the past decade. Proposed cuts in entitlements or in medical care meet with instant and forceful opposition. In contrast, cuts in GOE, the account that provides the funds to *administer* entitlement programs and deliver their benefits, are not as visible to the public nor as likely to arouse impassioned protests. In fact, such cuts have surface appeal because they are packaged as attacks on the "bloated bureaucracy."

Thus, with regularity, the number of employees in the Department of Veterans Benefits (GOE's largest component) has been reduced. Standing at approximately 20,000 just over a decade ago, it is some 13,000 now, and will fall below 10,000 in a few years if current trends continue, as Chart I shows. As described below, these staff cuts have had an obvious result: Claims take much too long to process, and the quality of claims adjudication has deteriorated.

It is also clear that the budget process that has produced these cuts with regularity has had a more subtle and demoralizing effect on VA managers and employees, as described here: An important role of management is to provide effective service with the least possible resources. Effective service, however, is the premise of this principle, a fact that appears to have been ignored by OMB budget cutters in their zeal to use the least possible resources. Repeated staff cuts in DVB have been appropriate, given the introduction and gradual modernization of electronic data processing (EDP) systems, but adequate staff to provide timely and accurate service must be maintained; however, it has not been. The cumulative effect of the excessive cuts that have occurred year after year has been a demoralization of managers. Agency managers gradually give up hope of being able to deliver service consistent with the VA's mission—"to ensure benefits and services are provided to eligible veterans and their families in an efficient, timely and compassionate manner." Diminished expectations become the rule; with inadequate resources, only inadequate services can be expected.

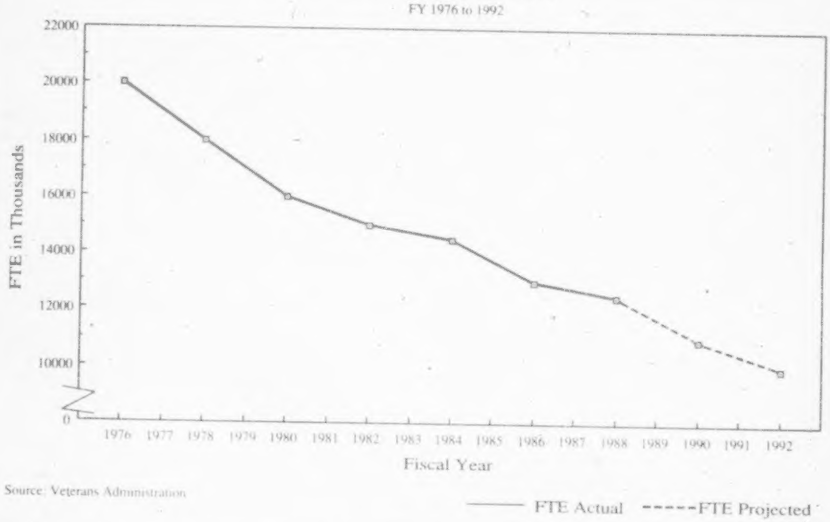
Moreover, critical initiatives die because obtaining the resources initially needed to implement them—no matter how cost-effective they may be—is considered hopeless. Short-term and/or one-time funding for administrative initiatives that will improve cost-effectiveness in succeeding years is not provided.

For example, although training is urgently needed in DVB, there is no money to do it. In the current environment, it is considered a luxury that is not affordable. Managers are told to do what they can with what they have. Training that does occur is *ad hoc* and without any centralized or consistent direction. And this is true despite the fact that training would be cost effective.

Similarly, DVB urgently needs modernization of its automated systems to attain increased productivity, but systems modernization proceeds at a snail's pace and with outmoded equipment because of lack of budgetary support. Quality control is also left to take care of itself because, at least initially, doing more would mean diverting already scarce resources. Training, modern automated systems, and quality control are all cornerstones of sound management, and are designed to provide effective service at the least possible cost, yet VA managers have been deprived of these essential tools by the mechanics of the current budget process.

The challenge, then, is to assure that benefits to veterans are made available to them in a timely, effective and cost-efficient manner. This implies that needed additional resources must be provided in GOE, and this must be done within the overall budget climate of fiscal austerity.

Chart I
DVB EMPLOYMENT
FY 1976 to 1992



Source: Veterans Administration

OUR STRATEGY

In light of this challenge, the primary emphasis of our strategy is to offer credible and economical, yet effective, solutions to problems in GOE. Therefore, each Independent Budget proposal attempts to identify the major problems of needs relating to specific program areas, to analyze the causes of the problems, to assess the current situation, and to propose a budgetary solution that, in our view, represents the minimum additional expenditure needed to provide adequate service. Our analysis leads us to a strategy that meets the challenge in four ways: (1) improved staffing in various programs; (2) improved integrated EDP systems to support the VA's mission; (3) a training program designed to upgrade and maintain the skills of the DVB staff; and (4) the installation of quality control systems to assure adequate and timely claims processing.

DEPARTMENT OF VETERANS BENEFITS (DVB)

The Department of Veterans Benefits (DVB) administers most of the VA's non-medical benefits and services to veterans and their dependents. It does so through a chain of 58 regional offices (some of these are medical/regional office centers) as well as nationwide toll-free telephone lines. The benefits it administers include compensation for service connected disabilities; pensions for low income, aged or disabled veterans; vocational rehabilitation; education and training support; home loan guaranties; and life insurance. Appropriations for these benefits exceed $15 billion while the cost of operating DVB in FY 1989 will be well under $600 million dollars, less than four percent of the cost of the benefits. Our budget and staffing recommendations for DVB are summarized in Tables IV and V.

DVB Overview

The most serious problem in the GOE appropriation is the severe deficiency in timeliness and quality of service in many benefit programs. This problem is due primarily to the gross understaffing of the Department of Veterans Benefits (DVB) cited above. DVB staff

TABLE IV
GENERAL OPERATING EXPENSES APPROPRIATION
(dollars in thousands)

GOE ACCOUNTS	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
Veterans Benefits	519,100	520,500	518,800	526,300	542,800
Memorial Affairs	45,000	47,300	48,400	49,900	49,900
General Administration	206,500	207,000	211,000	228,500	228,500
TOTAL APPROPRIATION	770,500	774,800	778,200	804,700	821,200

*Funds necessary to maintain services at the FY 1987 level

TABLE V
EMPLOYMENT
GENERAL OPERATING EXPENSES

GOE ACCOUNTS	1987 Appropriation	1988 Appropriation	1989 IB Recommended
Veterans Benefits			
Executive Direction	468	484	484
Veterans Services	2,200	2,128	2,276
Compensation, Pension and Ed	3,684	3,810	3,882
Loan Guaranty	2,123	2,100	2,100
Insurance	486	444	444
Voc. Rehab & Counseling	639	661	714
ADP Systems Manage	397	419	419
Support Services	3,163	3,084	3,084
TOTAL DVB	13,126	12,800	13,345
Memorial Affairs	1,197	1,203	1,203
General Administration	4,069	4,083	4,063
TOTAL EMPLOYMENT	18,382	18,086	18,599

have worked valiantly, but are being overwhelmed.

In addition, the current state of EDP in DVB is deficient and the lack of needed integration with VA health care EDP systems is particularly troublesome. The EDP deficiencies are another important cause of service problems, and they are linked to the staffing shortages: Often the promise that productivity increases will result from new EDP systems has been used by OMB as a rationale for imposing staff cuts on DVB. The EDP systems have often failed to deliver what was promised, while the staff cuts were already made, and the results have been increasingly substandard service. We therefore emphasize again our principle that productivity increases should not be assumed in advance, but only counted when actually accomplished.

Another contributing factor to the poor state of DVB service is the lack of training of DVB employees. With funding tight, training has been severely restricted. This restriction of training, however, has been a false economy with serious detrimental effects on services (particularly on the processing of benefit claims).

Our plans for dealing with this challenge are:

1. Staffing increases in areas of DVB where shortages are most critical;

2. Modernization of DVB's automated systems and, in particular, their integration with DM&S systems and systems elsewhere in the government that contain information DVB needs; and

3. Enhanced training for DVB employees, again concentrating on DVB functional areas in which training limitations have led to the most severe problems.

Our proposals incorporate explicit goals for timeliness and accuracy in benefit program services. For the short term, these goals are generally to achieve the timeliness called for in the late 1970s by the VA's own standards and to achieve the quality in service that was being achieved at that time. For the longer term, our goals are higher. These higher goals are realistic ones, and are based on previous VA achievements or on achievements in similar federal programs. Illustrative goals are detailed in the section on specific recommendations.

Evidence from the VA makes it clear not only that current DVB deficiencies result primarily from staff cuts, but also that such deficiencies can be remedied by an increase in staff. The clearest evidence that judicious staff increases can cure service problems comes from data on the operations of the Board of Veterans Appeals (BVA), which hears appeals from benefit determinations made by DVB. Table VI shows these data. Average BVA appeal processing time skyrocketed from 156 days to 301 days as the number of appeals increased from 30,000 in FY 1980 to 41,000 in FY 1983, and it was only a large increase in BVA staff—an increase of 25 percent and more—that brought processing time back down—to between 106 and 134 days in FY 1984 through FY 1987.

In some DVB functional areas—those in which deficiencies are less severe—we are not requesting staff increases. We follow this policy only because of the large federal budget deficit and the consequent need for austerity. Because of the need for austerity, we have taken an optimistic view in these DVB functional areas, and hope that proposed modernization of DVB computerized systems can do much to cure current problems.

Throughout DVB, including the areas in which we do recommend staff increases, we recommend an acceleration of funding for this modernization of automated systems in order to get systems on-line as soon as possible and to gain the productivity increase they should be able to achieve. However, it must be noted that the current DVB systems modernization initiative is new, and it is too soon to know what its actual impact will be. Thus our position of not requesting personnel increases in many DVB areas must be reappraised as the new systems come on-line and their true effect is seen.

In stressing DVB systems modernization, we wish to emphasize two important characteristics improved sys-

TABLE VI

BVA STAFF AND AVERAGE APPEAL PROCESSING TIME

Fiscal Year	BVA Staff (FTEE)	Average Appeal Processing Time (Days)
1980	329	156
1981	328	227
1982	343	227
1983	359	301
1984	411	132
1985	437	129
1986	417	106
1987*	423	134

*First three quarters of year.

tems should have, while avoiding the excessive micromanagement that would be inherent in our fully specifying system characteristics. For one, updated systems should incorporate quality control checks and produce quality control data—for example, information on accuracy and timeliness. To foster quality, systems also could contain built-in checking of completeness of case processing and built-in alerts for error-prone situations. Integration with BVA quality control systems should be achieved, and we recommend to DVB the use of data—as BVA does—on average processing times, workload pending, and percent of completed cases in each disposition category.

Second, it is vital that DVB systems have automated links to systems in other components of the VA and, preferably, also to other federal government departments. It would be tragic if systems modernization in DVB and DM&S proceeded on separate tracks, resulting in disparate and incompatible systems. The VSOs cannot stress strongly enough the need for integrated EDP systems within the VA. Links between automated systems in DM&S medical centers and DVB regional offices (ROs) are particularly important, and should encompass such matters as:

- Scheduling of compensation and pension examinations and reporting their results to ROs;
- Reporting inpatient hospitalization to ROs; and
- Providing medical centers a means of querying veterans' disability status and eligibility for VA health care.

Links between VA and DOD computer systems might help in providing information quickly on veterans' dates of military service and type of discharge.

Finally, we wish to stress the importance of due process in the work of DVB. Veterans must receive full due process, including proper notices that fully inform them of:

1. The actions being proposed or taken;
2. The reasons for those actions;
3. Their right to examine and present evidence;
4. Their right to have a personal hearing; and
5. Their right to be represented.

We are concerned about the large number of appeals that BVA is remanding (sending back) to DVB on the grounds that due process has not been followed. We strongly urge that systems modernization include features that will help guarantee that no veteran is deprived of due process. These could include check lists for DVB staff of procedural steps that should be taken, and automatic generation of text in notifications to veterans that set forth the veterans' rights in connection with the actions described in the notification.

Specific Recommendations

We turn now from an overview of DVB to our specific recommendations for the individual components of DVB.

Current Services: Fully fund the current services level, with $5.8 million in additional appropriations for DVB in FY 1989. The FY 1989 appropriation for DVB must include enough funds to continue current services (i.e., continue the FY 1987 services level) plus those needed to provide for the three-part remediation program (consisting of enhanced staffing, training, and integrated EDP systems) needed in DVB. As Table IV shows, the estimated current services level in DVB is $526 million in FY 1989; we recommend this amount for the DVB appropriation plus the cost of the remediation program described in detail below.

Regional Offices: We recommend DVB open a second regional office (RO) in Florida. With an estimated 1.46 million veterans in FY 1986, Florida had the fifth-largest population of veterans among the states. Its veteran population was exceeded only by that of California, which has 3 ROs, and New York, Texas, and Pennsylvania, which have two ROs each. Moreover, Florida has shown the largest increase in veteran population of any state.

Nationwide, veteran deaths outweigh separations from the Armed Forces, and with the total veteran population shrinking, most states have a declining veteran population. Generally speaking, the veteran population is increasing only in states with substantial in-migration. Florida's increase is made up largely of an in-migration of elderly veterans who have relatively high service needs. Also, geographically, Florida has a larger area than either New York or Pennsylvania.

The planning for the new RO can be funded within the existing budget for the advanced planning fund (part of the construction appropriation). Additional costs associated with our recommendation for a second regional office in Florida will not occur in FY 1989.

Executive Direction: Effectively manage initiatives. The Executive Direction component of DVB consists of the offices and staffs of the Chief Benefits Director (CBD, the head of DVB) and three major units of DVB (field operations, program management, and EDP systems management), each under a Deputy Chief Benefits Director.

The Independent Budget proposes a number of specific recommendations that will require extensive and innovative planning and management for successful implementation. We realize that this is a difficult task, but are confident that DVB possesses the executive talent and dedication to implement these recommendations *if* a new environment—such as is described in the "Challenge" section of this chapter—is created. Obviously, adequate funding will be an important element in planning and managing these initiatives. Consistent with our view that DVB management is especially well positioned to know what is needed to restore effective service to veterans, we hope that DVB and the VA will make a persuasive case in future budget requests for resources that need to be deployed to achieve efficiency, promptness, and a high quality of service. We call on the Congress to give these requests a favorable hearing.

Veterans Services: Restore staffing to the FY 1986 level of 2,276 FTEE, at a cost increase of $4.4 million. The Veterans Services component of DVB provides information, advice, and assistance regarding veterans' benefits to veterans, their dependents, and their survivors. This information and advice is provided in person —primarily at regional offices—over nationwide toll-free telephone lines, and by correspondence. The Veterans Services program also conducts outreach activities aimed at disadvantaged, elderly, homeless, and other special groups of veterans. Veterans Services personnel also oversee payment of VA benefits to legally incompetent veterans and have program approval and compliance responsibilities for educational and training institutions in the VA's education benefit programs.

While requests for information and assistance handled by Veterans Services staff are expected to increase from 13.5 million in FY 1986 to 14.4 million in FY 1988, and 11 percent of telephone calls went unanswered because of staff overload in FY 1986, the Administration sought a reduction of approximately 150 Veterans Services employees between FY 1986 and FY 1988. Cutting staff when workload is growing and service is already unsatisfactory just does not make sense. Improved telephone equipment and extensive use of recorded messages should be some help, but the abandoned call rate needs to be cut radically. To achieve this goal, we propose adding 148 FTEE, at a cost of approximately $4.4 million, to restore staff to the FY 1986 level.

Staffing in Veterans Services—combined with the automated technology used—must be adequate to meet the demand for services, and to provide quality responses. In the short term, our goal for Veterans Services is to greatly reduce the abandoned call rate so that close to 100 percent of incoming calls are answered. After that is achieved, outreach activities by Veterans Services need to be enhanced. For example, in the post-World-War-II period, DVB maintained a regular presence at VA medical centers; now Veterans Services staffing at VA medical centers is sporadic and spotty at best. The homeless veteran in America presents another need for outreach. During the first six months of a recent pilot outreach project, over 6,000 veterans turned up among the homeless, many with heavy needs for VA services.

Compensation, Pension, and Education: Staff with 3,852 FTEE at a cost increase of $11 million; provide organized, nationally standardized training; and improve integrated EDP systems. The Compensation, Pension, and Education (CP&E) component of DVB carries out the processing of veterans' claims for compensation, pension, and education benefits, and administers payments of these benefits. Annual payments to veterans under these benefits programs total approximately $15 billion, while funds for the CP&E component of DVB total about $0.1 billion, well under one percent of the cost of these benefits. Nonetheless, the most severe problem in these benefit programs lies not in the benefits themselves, but in the poor service being received by veterans. Again, we stress this is not the fault of CP&E employees, but the fault of staffing shortages that make it impossible for CP&E staff, despite their hard work, to provide adequate service.

The situation is sufficiently grave that the evidence of substandard performance in both quality and timeliness of service in CP&E bears discussing at length.

The disposition of original claims for compensation provides one example of the problem: In 1979, the VA's own standards called for action on 50 percent of original compensation claims to be completed within two months and for 75 percent to be completed within three months. In FY 1987, however, only 16 percent were completed in two months, only 31 percent were completed in three months, and the VA had greatly diminished its standards. The 1987 standards set goals of 30 percent and 50 percent completion in two and three months[1], respectively, and "acceptable" rates of 20 percent completion in two months and 35 percent completion in three months. The "acceptable" standards in 1987 called for *less than half* as many timely results as the 1979 standards, *and even these much diluted standards were not being met.*

Similar situations characterize processing of other claims—for example, original claims for pensions. For original pension claims, the 1979 standards were 60 percent completion within two months and 80 percent completion within three months, while the actual FY 1987 results were 37 percent completion within two months and 53 percent completion in three months.[1]

The unacceptable character of current performance becomes even clearer when some other facts are considered. First and foremost among these is the grave financial situation of many of the veterans filing initial claims for compensation or pension benefits. For example, to receive any pension benefits, a veteran's income has to be very low—below about $6,000 a year. Such veterans are hardly able to wait the months it is now taking for initial action on their claims to be completed.

The second noteworthy fact is that the Social Security Administration typically completes action on Disability Insurance (DI) claims in 45-60 days. Veterans ought to be able to receive the same timeliness of service on compensation and pension claims. Indeed, more rapid service should be available to veterans because all Social Security DI claims require a determination of disability (a particularly difficult part of the adjudication process), while some veterans' pension claims do not (because low-income veterans are eligible for pensions on the basis of having reached age 65, as well as on grounds of disability).

A third factor to consider is the percentage of original compensation and pension claims still pending after six months. Given the often desperate financial status of claimants, claims should almost never be allowed to take six months or more to resolve. This fact was reflected in the 1979 standards, which called for only two percent of original pension or original compensation claims to require six months or more to complete. However, in FY 1987, 25 percent of original compensation claims were requiring six months or more—more than 12 times as many as called for by a reasonable standard—and 12 percent of original pension claims were taking this long, which was six times as many as called for by the standard.

The processing of appeals that veterans lodge against initial regional office decisions also shows problems in service. Until FY 1984, the DVB portion of the appeals process was taking, on average, about 200 days, but thereafter the time required skyrocketed to almost 300 days. Moreover, through FY 1984, about 15 percent of cases sent by DVB to the Board of Veterans Appeals (BVA) were remanded—i.e., sent back to DVB because the case record was incompletely or incorrectly assembled—but the remand rate has since increased to 21 percent. Clearly, both timeliness and quality have deteriorated.

Again, we stress that the main reason for the problems in the CP&E area is the very large staff reduction that took place. Between FY 1978 and FY 1986, DVB staff in the compensation, pension, and education area was cut from approximately 5,700 to approximately 3,600, as Chart II shows. While there was a reduction in workload (due almost entirely to a declining number of education claims), and productivity should have increased as computer systems were installed, the staff cuts have obviously been excessive—as shown by unacceptable levels of performance, even by the VA's reduced standards.

Clearly, what has been ignored in the current budget process is the inescapable interrelationship among timeliness, the volume of work, and the number of employees available to accomplish the work. If the volume of work decreases, staff cuts are appropriate, but only to the extent that timeliness of service is maintained. The constant in the three-part equation of timeliness, volume, and number of employees must be timeliness, unless a conscious decision is made to allow the timeliness of work to deteriorate. Such a decision potentially affects millions of people, and should not be made for arbitrary budgetary reasons. Rather, because it has major public policy implications, it should be made only after careful Congressional consideration. Moreover, there must be recognizable accountability for any such decision. Obviously, this has not been the process that has been operative over the past decade, although the OMB-driven process has led to unacceptable timeliness performance.

As the foregoing information demonstrates, addi-

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[1] Based on the first nine months of the fiscal year.

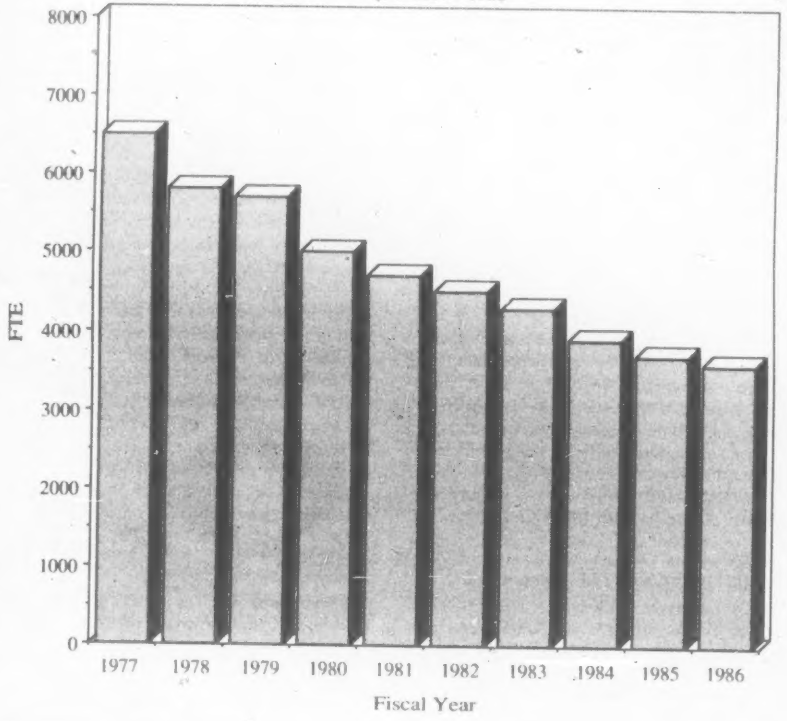


Chart II
COMPENSATION, PENSION AND EDUCATION STAFFING
Number of Full-Time Employees
FY 1977 - 1986

tional staff is necessary to achieve timely service; the question is how much more staff is needed. The VSOs recommended an increase in CP&E staff to 3,852 in FY 1989, an increase of 342 staff over the FY 1988 level at a cost of $11 million. The full rationale for this recommendation is contained in Appendix A, "Measuring the Need for Compensation, Pension and Education Staff in the Department of Veterans Benefits." The analysis in that appendix incorporates a methodology that:

- Examines historical CP&E workload data using the VA's own work measurement system;
- Analyzes historical staffing levels using the work measurement system as a tool to determine the adequacy of the staff to process the volume of work;
- Applies a factor that accounts for the essential ingredient of timely disposition of claims.

Reversing some of the excessive staff reductions of recent years is not the only action necessary to improve timeliness and accuracy of service in the compensation, pension, and education area. We also recommend a program of training new employees and of improving automated systems.

Currently, there is no budget in CP&E earmarked for training, and training of new employees is usually provided on the job by experienced claims processing personnel. This approach to training is expensive; DVB estimates that up to one-third of the time of a senior adjudicator is consumed over a six-month period in one-on-one training of each new professional employee. Training in this mode also generates major quality problems. There is no uniform set of training experiences provided to trainees throughout the network of 58 regional offices, and the absence of a standardized instructional experience probably is a major factor in quality deficiencies in CP&E work.

We therefore recommend the institution of organized training in CP&E that will deliver nationally standardized training. Training could be provided by a centralized instructional staff at a national training academy; in a partly decentralized fashion by videocassette instruction supplemented by computerized practice and testing modules; or through use of other techniques or combinations of techniques. The choice of techniques should be based on cost-effectiveness, and DVB will probably have to experiment initially to identify the costs and effectiveness of various training modalities. Training should encompass not only instruction of new employees, but also continuous retraining, particularly retraining of experienced employees in areas that BVA and DVB quality control systems have shown to be problematic.

The Independent Budget recommends an initial training budget of $650,000 for CP&E, with 15 FTEE added for the training activity. Also, assistance from current CP&E staff will need to be supplied for the development, dissemination, and use of training programs. Initial experience in training will provide information on resources (both personnel and dollars) needed for training in future years and on the gains resulting from training.

We expect that in the long run training will more than pay for itself in increased productivity, reduced error rates and appeals, and reduced use of experienced personnel in the costly one-on-one training mode that now prevails.

Improvement of computerized systems is the third necessary component of the solution to the problem of substandard quality and timeliness in CP&E service. Modern automation is a basic necessity for handling large claims workloads with reasonable productivity. As described above, the updated systems used in CP&E should integrate with those in other components of the VA (and perhaps outside the VA) and be designed to enhance quality.

In summary, a combination of (1) increased staff; (2) organized, centrally directed training; and (3) improved and integrated computer systems is needed to produce satisfactory service in CP&E.

For the short term, the objective should be to meet the timeliness standards of the late 1970s and to restore quality to the levels achieved then. Some of the specific standards and achievements of this period have been cited above, but it is important to emphasize the need for timeliness in completing action on appeals. In the late 1970s, average total time from initial claim to completed action on an appeal was about 300 days, and we recommend this is as the short-term goal for appeal timeliness. In contrast, an average of over 400 days now prevails.

After short-term goals are achieved, consideration should be given to further improvements in timeliness for those types of claims that often involve veterans with a grave short-term need for benefits (for example, original pension or compensation claims). What should be achieved in the long term is illustrated by the 45-60 day average processing time for Social Security Disability Insurance claims or by the fact that in the mid-1970s the VA's total elapsed time for an appeal averaged 235-260 days.

Loan Guaranty: Implement remedial measures. The Loan Guaranty program provides housing credit assistance to eligible veterans and military personnel through guarantees of loans made by private lenders and through direct loans to certain severely disabled veterans.

The administration of this program is beset by a number of problems. These problems are caused, in part, by economic and market conditions over which the VA has no control. Thus, efficient administration of this program is extremely difficult. For example, in 1986 a total of 314,000 loans were guaranteed, a 75 percent increase over the previous year. This level of activity was a direct result of the sharp decline in mortgage interest rates throughout the nation. At the same time, depressed economic conditions in the Southwest led to a significant increase in defaults on guaranteed loans and in the number of acquired properties.

These developments caused large backlogs and DVB management did a commendable job by using many means to deal with them. For example, employees were detailed from other programs, additional funds were made available for overtime, and contracts were made with private individuals (usually retired employees) to perform work on a fee basis. These management initiatives met with considerable success. For example, in May 1986 only 27 percent of VA appraisals were processed within VA's basic 15-day time standard, but by November 1986, 57 percent of the appraisals were meeting the timeliness standard.

These measures were, however, insufficient to adequately address the backlog problem, as the timeliness data indicate. We note with approval that the estimate of FY 1988 average employment to administer this program is 2,100—131 over the FY 1986 level of 1,969. This increase in the number of employees is, we think, desirable for several reasons. For one, the stop-gap measures taken in response to the upsurge in workload are disruptive to other programs and expensive (additional travel, contracting costs, and overtime). Second, they are "band-aid" approaches to a major problem that gives no indication of being quickly resolved—interest rates remain relatively low and economic conditions in the Southwest have not improved significantly.

Congress is also addressing problems in the loan guaranty program, most recently in P.L. 100-198. For example, that legislation includes, among others, a provision that would require the VA, to the extent appropriations are available, to provide personnel to implement improved service to veterans. It also makes a number of changes directed at problems of defaults, foreclosures, acquired properties, and loan management.

We are encouraged by these developments; they demonstrate that attention is being given to this program, both legislatively and administratively. However, we believe that additional resources must be provided to restore adequate service to veterans, particularly those who have defaulted on VA-guaranteed loans. Therefore, we are recommending that Congress authorize additional staff and funding at this time, solely for the purpose of providing immediate servicing of defaulted loans in an attempt to avoid foreclosure and reduce the program's liability.

Vocational Rehabilitation and Counseling: Increase staff to 714 FTEE at a cost increase of 1.6 million. The Vocational Rehabilitation and Counseling (VR&C) component of DVB provides assistance to veterans with service connected disabilities to help them achieve maximum independence in daily living, to become employable, and to obtain and maintain suitable employment. It also provides counseling services to veterans and members of the Armed Forces applying for educational and job training benefits and it operates career development centers. Its three main areas of activity are to provide: (1) Rehabilitation evaluation and planning; (2) Counseling and rehabilitation services; and (3) Employment services.

These services are among the most important in the entire veterans' benefits area. VR&C carries out the nation's commitment to help veterans disabled in military service—those to whom we owe most—to function independently and to obtain suitable employment. These services, moreover, are beneficial to the nation because they help restore disabled veterans to the status of economically productive, taxpaying workers.

Unfortunately, there are backlogs in the VR&C workload, due to inadequate staffing, which seriously undermine the effectiveness of the service VR&C provides. For example, a veteran must now wait 84 days, on average, from the time his application is received until he has an initial interview with a vocational rehabilitation specialist (VRS). This is an intolerable wait, especially as studies of successful vocational rehabilitation programs repeatedly show the critical importance of starting rehabilitation quickly—before negative attitudes about employability become established. In the short term, our goal is to reduce the wait to 30 days; for the longer term, even better performance is necessary and DVB should re-establish a presence in VA medical centers—such as it had in the post-WWII period. Among other things, such a presence will help VR&C to start contact with veterans needing vocational rehabilitation services at the optimal time—namely, early after hospitalization begins.

Other delays in VR&C services are occurring when vocational rehabilitation staff believe psychological counseling and evaluation is necessary.

Additional evidence of staffing shortages in VR&C include:

- An average workload of 182 cases for VA vocational rehabilitation specialists compared to a workload of 60 cases for comparable staff in the state/federal rehabilitation program.

- An increase from 155 days in FY 1984 to 232 days in FY 1986 in the average time from (1) the completion of a veteran's rehabilitation program and his readiness to seek employment until (2) he has been employed for 90 days, which is the point at which rehabilitation is counted as having succeeded.

In short, service to veterans in this important area is clearly inadequate. This has also been documented by General Accounting Office (GAO) and Inspector General (IG) studies completed in recent years.

Again the problem is caused by grossly deficient resources and a lack of training. For example, until approximately seven years ago, the VA was not involved in employment services. Before that time, once a veteran's vocational rehabilitation and counseling from the VA were completed, a veteran was on his own (or referred to the Department of Labor) for employment services. The VA has since become responsible for employment services, but no additional funds were provided. Vocational rehabilitation staff thus took on the new responsibility, but they have been overloaded with cases, and cannot devote appropriate time and attention to employment services.

We therefore note with approval the fact that VR&C has finally received authorization to create a new position of employment specialist. Currently, there are approximately 4,600 veterans needing employment services at any given time. We recommend a workload of 100 cases per employment specialist, or 46 FTEE for employment specialists in VR&C. This should finally provide adequate employment services. It will also generate some relief for rehabilitation specialists. However, to deal with the excessive backlogs and their very negative consequences, more staff is needed.

We therefore recommend increased staffing to provide one vocational rehabilitation specialist for every 125 rehabilitation cases and one counseling psychologist for every 20 active counseling cases; currently, the rehabilitation specialists carry an average workload of 182 cases, and the psychologists an average load of 25 cases. Despite this staffing increase, the vocational rehabilitation specialists will still be carrying more than twice the workload of their counterparts in the state/federal program.

We also want to emphasize an urgent need for training VR&C staff in their specialized work. Suitable training programs are available through contract with the Department of Labor.

ADP Systems Management: Actively manage systems modernization. The ADP Systems Management program is focused on the modernization of DVB's computer and telecommunication systems in order to provide better services to veterans and their dependents and survivors.

We have made several recommendations regarding the direction systems modernization should take; the manner of the specific implementation of these recommendations is a matter for VA management. The VSO's do, however, expect a realistic and cost-effective assessment of ADP needs by DVB. VA management must make a determination of whether a supplemental appropriation should be sought for ADP systems development. If a supplemental appropriation is appropriate, we urge the Congress to approve it.

We again emphasize the need for rapid modernization of DVB automated systems and the critical need for development of ADP links with the rest of the VA — and possibly other federal agencies—to provide the integrated, modern computerized systems needed to render timely and accurate service to veterans and to permit high-level productivity from DVB employees.

Support Services: Maintain current staff. The Support Services component of DVB provides administrative, finance, and personnel office staff to the rest of DVB. We find performance in this area more adequate than in others, and do not recommend an increase in staff or an increase in other resources beyond that needed to cover inflation.

DEPARTMENT OF MEMORIAL AFFAIRS (DMA)

The Department of Memorial Affairs (DMA), the second VA department funded by the General Operating Expenses (GOE) appropriation, carries out three main activities. For one, it inters deceased veterans, as well as members of the Armed Forces, their spouses, and certain dependents, in national cemeteries that have available grave space. Second, it provides headstones for these burials in national cemeteries and also for burials in private cemeteries. Third, it administers the program of grants to states for state veterans cemeteries.

Maintain current staffing. We recommend continuation of the present level of DMA staffing. As Chart III shows, the number of interments, headstones provided, and graves maintained each year is increasing rapidly as the veteran population ages, and current staff is able to keep up with this increasing workload only through increasing efficiency.

We are proposing legislation that will result in an expansion of the national cemetery system. Our proposal is detailed in the chapters dealing with construction. When it is enacted, additional staffing and resources for DMA will need to be considered.

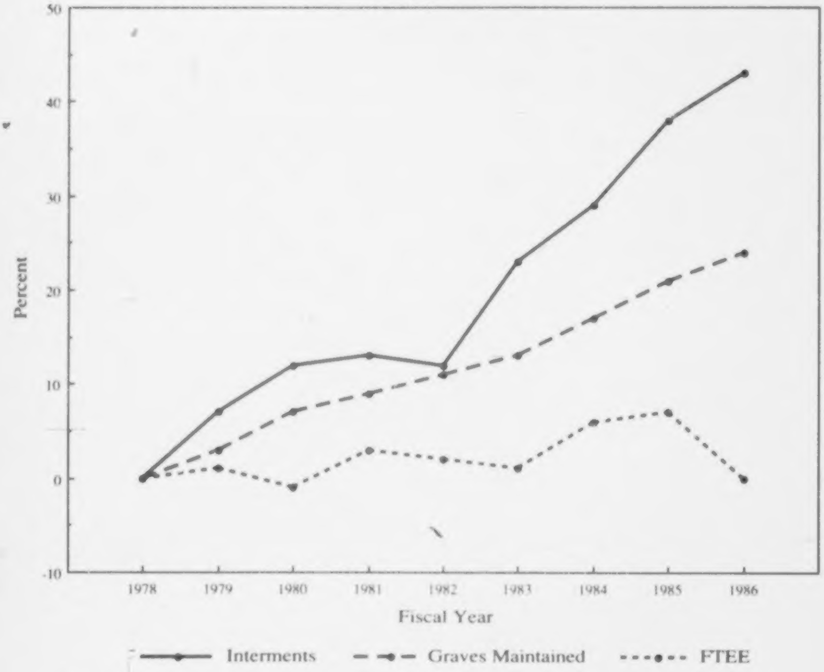
GENERAL ADMINISTRATION

General Administration, the third major function funded by the GOE appropriation, consists of the Office of the VA Administrator, other agency-level offices (except those involved with construction, procurement, and supply), support offices (such as information systems and telecommunications), and the Board of Veterans Appeals.

Maintain current staffing. Staffing and resources in this area are generally adequate and we recommend no increases beyond those needed to cover inflation. However, we stress again the need for agency-wide integration of EDP systems that require information from multiple VA departments.

Agency-level personnel must play a leading role in assuring that department-level staff work together to rapidly overcome current deficiencies in this respect and that new systems and system modernization provide for integration.

Chart III
DMA Workload and FTEE
1978 - 1986



Source: Veterans Administration

GRANTS FOR THE CONSTRUCTION OF STATE VETERANS CEMETERIES

This program provides for grants to states for the establishment, expansion, and improvement of state-operated veterans cemeteries. At relatively little cost to the federal government, it helps support a system of cemeteries reserved for veterans.

We recommend an appropriation of $3 million for FY 1989, which is in line with the level of spending in the program in the recent past. We also recommend legislation reauthorizing the program for an additional five years (FY 1990 through 1994). The legislation should authorize appropriations of up to $5 million a year, with each year's funds to be available for expenditure over three years.

BENEFITS PROGRAMS

BENEFITS PROGRAMS SUMMARY

The funding structure for veterans' benefits is complex. The VA's administration of benefits programs is funded through the General Operating Expenses (GOE) appropriation, which has been covered previously. The benefits themselves involve over a dozen accounts. Most of these accounts (particularly those for life insurance programs) are self-financing or funded by other government departments (principally by the Department of Defense) and require no VA appropriations. Only five benefits accounts require VA appropriations:

1. Compensation and Pensions
2. Readjustment Benefits
3. Veterans' Job Training
4. Loan Guaranty Revolving Fund
5. Veterans Insurance and Indemnities.

Only these five benefits accounts are treated in this Independent Budget. Our primary recommendations for these veterans benefits programs are:

- A cost-of-living adjustment (COLA) effective December 1, 1988 in veterans' benefit programs that is equal to the COLA applied in other federal programs. The VSOs are prepared to support a reduced or eliminated COLA as a deficit-reduction method if it is applied across the board. We estimate that a full COLA would be approximately a 4.5 percent increase.

- Updating the maximum grant amount for specially adapted housing for severely disabled veterans to $40,000 and updating the maximum grant amount for specially adapted automobiles to $5,530.

- Legislation to extend the eligibility date for the Veterans' Job Training Program to June 30, 1989.

- A $600 million appropriation for the Loan Guaranty Revolving Fund.

- Increasing the number of direct loans the VA is authorized to make.

Recommended appropriations for each of the five benefits accounts included in the Independent Budget are shown in Table VII, "Benefits Programs Appropriations," and the next five sections of the Independent Budget are devoted to each in turn. For the other benefits accounts, we recommend continuation of current program activities and funding mechanisms.

TABLE VII
BENEFITS PROGRAMS APPROPRIATIONS
(dollars in thousands)

Benefits Accounts	1987 Appropriation	1988 Appropriation	1988 IB Current Services*	1989 IB Current Services*	1989 IB Recommended Appropriation
Compensation, pension, and burial benefits	14,422,500	14,334,300	14,334,300	14,795,000	14,795,000
Readjustment benefits	763,300	625,700	625,700	595,600	595,600
Veterans insurance and indemnities	4,800	14,300	14,300	9,220	9,220
Veterans' job training	30,000	0	0	0	0
Loan guaranty revolving fund	100,000	390,000	390,000	600,000	600,000
TOTAL BENEFITS PROGRAMS	15,320,600	15,364,300	15,364,300	15,999,820	15,999,820

*Funds necessary to maintain services at the FY 1987 level

COMPENSATION AND PENSIONS

Compensation and pension appropriations provide funds for payment of compensation, pension, and burial benefits, and also some miscellaneous benefits.

OUR STRATEGY

Our primary strategy for this appropriation is to provide for *equitable* cost-of-living allowance (COLA) increases. Veterans are willing to bear their fair share of economies needed to reduce the deficit, and we will accept a reduced COLA if the Social Security COLA is similarly reduced and federal contracts are adjusted so that wage increases of contractor employees are similarly held down. However, veterans who served in wartime or who were disabled in the service of their country must not be made sacrificial victims of cuts not imposed on all others.

SPECIFIC RECOMMENDATIONS

Compensation: Provide $10.8 billion for FY 1989. Compensation is paid to veterans for disabilities incurred during active military service or aggravated during service. Death and Indemnity Compensation (DIC) is paid to survivors of servicepersons or veterans whose death occurred while on active duty or as a result of service connected disabilities. The rate payable depends on degree of disability (for living veterans), service rank (for survivors of veterans), and number of dependents for both veterans and survivors. In addition, a clothing allowance is provided for service disabled veterans who use a prosthetic or orthopedic appliance that tends to wear out clothing.

We recommend $10.8 billion for compensation for FY 1989. This excludes a full 4.5 percent cost-of-living allowance (COLA) effective December 1, 1988, which will require supplemental funding of $390 million.

The General Accounting Office (GAO) is currently conducting a broad study of the schedule the VA uses for rating the degree of a veteran's disability and the service connectedness of the disability. The VSOs are greatly concerned about the GAO study because of indications that it may be an attempt to change the basic philosophical foundation of the rating schedule. The VSOs believe that the rating schedule is an excellent guide for the adjudication of service connected disabilities. Any basic change in the rating system is a public policy issue, not a matter of fine tuning, and should be implemented only through legislative action by the Congress. The VSOs therefore oppose any backdoor approach, under whatever guise, to make fundamental changes in the VA's schedule for rating disabilities without due Congressional deliberation and explicit legislation.

Pension: Provide $3.9 billion for FY 1989. Pension benefits are paid to aged (65 or over) or disabled veterans of wartime service who have low income, and to their survivors. (There is no disability requirement for survivors.) Amounts payable depend on income and number of dependents. Pensioners who have come on the rolls since January 1, 1979 receive "improved law" pensions that include an automatic annual COLA increase equal to the Social Security COLA, count almost all income in determining income for pension eligibility, and reduce pension amounts dollar-for-dollar for every dollar of income from other sources. Over half of pensioners and more than four of every five pension dollars are paid under the improved law program. Older pension programs have major income disregards, little or no reduction of pensions for income from other sources, and no automatic annual increases.

Our recommendation of $3.9 billion for pension spending in FY 1989 includes the full, automatic 4.5 percent COLA increase for "improved law" pensions. Again, we stress that veterans are willing to bear their fair share of the burden of deficit reduction, but must not be singled out to be victimized.

Burial Benefits and Miscellaneous Assistance: Provide $145 million for FY 1989. We recommend $145 million for FY 1989 for this portion of the compensation and pension appropriation. All except $5 million is for burial benefits. These include burial and plot allowances, a flag to drape the casket of a deceased veteran, and furnishing a headstone or marker (or allowance therefore) for a veteran's grave.

Miscellaneous assistance totals $5 million, mostly for mortgage protection life insurance for service-disabled veterans.

The burial benefits are generally fixed-amount allowances. These modest tokens of the nation's last respect for those who served in the Armed Forces were cut in the "Balanced Budget and Emergency Deficit Control Act of 1985." The payment levels have been restored, and we counsel against similar cuts in the future.

READJUSTMENT BENEFITS

Appropriations for these benefits fund three types of programs:

1. Education and training (the "GI Bill") for Vietnam-era veterans and for dependents of veterans who died of a service connected disability or who have a permanent and total service connected disability. Expenses in this category are declining as Vietnam Era veterans exhaust their eligibility.

2. Special assistance to disabled veterans. This includes:

   - A monthly subsistence payment plus tuition, books, etc., for disabled veterans enrolled in education or training as part of a vocational rehabilitation program. Most such beneficiaries are enrolled in college.

   - Housing grants of up to $35,500 to aid certain permanently and totally disabled veterans in acquiring a specially adapted housing unit with the special fixtures and facilities necessitated by their disability.

   - One-time grants of up to $5,000 for purchase of an automobile by certain severely disabled veterans and servicepersons. Additional funds for purchase and repair of special adaptive equipment for the automobile are also provided and are available on a recurring basis.

3. Education and training under the "New GI Bill" for all-volunteer force veterans and certain reservists. The Veterans Administration pays for basic benefits (up to $300 per month) for veterans. Bonus-related supplemental benefits for veterans are paid for by the Defense Department. Spending in these programs is increasing because the first groups of eligible veterans are just beginning to use these benefits.

SPECIFIC RECOMMENDATIONS

Increase the maximum special adaptive housing grant to $40,000 and increase the maximum grant for adaptive automobiles to $5,530 to keep up with rising costs. The maximums have not been increased since 1985. These recommended increases are in keeping with the provisions of S9, the Omnibus Veterans' Benefits and Services Act of 1987, now making its way through the legislative process in the Senate. Because separate authorizing legislation is required to implement these recommendations, funding is not being requested in the Independent Budget.

VETERANS' JOB TRAINING

This program was established by the Emergency Veterans' Job Training Act of 1983 to relieve unemployment among Korean conflict and Vietnam-era veterans who were unemployed for long periods of time. Under existing law, the eligibility date for these benefits expires on June 30, 1988, and no appropriation for FY 1989 would be required.

We recommend an extension of the program to June 30, 1989.

Again, because authorizing legislation is necessary to implement this recommendation, funding for it is not included in the Independent Budget.

LOAN GUARANTY REVOLVING FUND

The Loan Guaranty Revolving Fund appropriation provides some of the funds required by the VA mortgage loan guaranty program. A fee equal to one percent of the loan amount together with income from the loan portfolio provide the remainder of the financing for the fund. The program's objective is to assist veterans in purchasing homes by substituting the federal government's guaranty of the loan for the security usually provided by a down payment (and by a shorter term of the loan). Thus veterans are able to purchase homes without making a down payment and with lower monthly payments (because of the longer loan term). Veterans with a service connected disability of 10 percent or more are exempt from the one-percent fee.

This program is important for veterans and for the nation. By assisting more than 12 million veterans in purchasing homes, it has played a major national role in fostering the American dream of home ownership, as well as increasing the tax base of virtually every community in the United States.

SPECIFIC RECOMMENDATIONS

End accelerated loan sales, increase the number of direct loans the VA is authorized to make, and appropriate $600 million for FY 1989. Appropriation requirements for the Loan Guaranty Revolving Fund are highly variable from year to year. They depend on the number of defaults, on whether the VA acquires the defaulted properties or merely pays off defaulted loans, and on how rapidly and in what manner the VA disposes of homes and loans it has acquired.

This fund is currently in a significant deficit situation; $390 million has been appropriated for FY 1988. We recommend an appropriation of $600 million for FY 1989 in light of the growing deficit in the fund. Accurate estimation of the fund's needs is difficult, given its current problems, and we urge the Congress to fully address the programmatic and financial problems of the fund. A significant part of the problem is due to economic and market conditions that are extremely adverse in certain areas of the country (notably the Southwest). The VSOs believe, however, that a major part of the problem has been caused by the OMB-directed policy of the accelerated selling of portfolio assets held by the fund. This policy is short-sighted at best, producing immediate income by sales at "bargain basement" prices. In other words, it forces a giveaway of government assets—i.e., the property of the American taxpayer—at prices frequently below those that would be realized by selling at a more reasonable point in time. In the medium and longer term, this policy virtually guarantees continuing deficits in the fund because of a loss of income from the fund's assets to offset its expenses. (The income is not available because the assets that would produce it have been sold.) We believe that this is a bad business practice, and urge the Congress to stop the OMB policy of accelerated portfolio loan sales. Undermining the future of this long-standing and successful program through fiscal myopia would be a grave error.

In addition, we are recommending that the Congress increase the number of direct loans the VA is authorized to make to eligible veterans. Before 1980, the VA direct home loan program produced significant income for the revolving fund—income that was available to offset any indebtedness incurred by the program. While increased appropriations will be required to implement this recommendation, the VSOs believe that it represents a fiscally responsible initiative to ensure the long-term security of the VA home loan guaranty program, as well as to reduce future appropriations needed to offset indebtedness incurred by the program.

We also oppose any increase in the one-percent loan fee, including the more than doubling to 2.5 percent that the Administration has proposed in the past.

VETERANS INSURANCE AND INDEMNITIES

The Veterans Insurance and Indemnities appropriation primarily provides supplemental funds for the service-disabled veterans' insurance fund so that service-disabled veterans may obtain life insurance at the same rates charged to non-disabled veterans. **We recommend an appropriation of $9 million in FY 1989.**

MEDICAL PROGRAMS

MEDICAL PROGRAMS SUMMARY

Funds exclusively for VA medical programs are provided through five appropriation accounts:

1. Medical care

2. Medical and prosthetic research

3. Medical administration and miscellaneous operating expenses (MAMOE)

4. Grants for construction of state extended care facilities

5. Grants to the Republic of the Philippines.

VA medical programs are operated by the VA's Department of Medicine and Surgery (DM&S). Our recommendations for the five medical appropriations are detailed in the five sections that immediately follow. (Construction of VA facilities, which primarily serves medical programs, is funded by separate appropriations and covered in a separate section of this year's Independent Budget document. However, the need for some construction activities is mentioned in discussing the medical programs they support.)

SPECIFIC RECOMMENDATIONS

Our primary recommendations for the five medical appropriations are:

- Restrict program enhancements to meeting the growing demand for medical care (rather than research, administration, or other activities) in light of the need for budget austerity.

- Fully fund cost increases necessary to maintain current services—i.e., to maintain services at the FY 1987 level. This is particularly critical in research and grants for state extended care facilities; serious cuts will result in FY 1988 and 1989 if these increases are not funded. Fully funding the current services level in VA medical programs requires approximately $50 million more than has been appropriated in FY 1988 and a further increase of approximately $390 million for FY 1989.

- Rapidly expand non-institutional long-term care in recognition of the particularly rapid increase in demand for long-term care that accompanies aging. This includes increased hospital-based home care; more adult day health programs, community residential care, and geriatric evaluation units; more geriatric research, education, and clinical care centers; more respite care programs and hospices, all at a total cost of $47 million.

- Expand nursing home programs, recognizing the inevitability of an increased nursing home census despite rapid expansion of non-institutional long-term care. We recommend an increase of approximately 3,000 in census in VA, community, and state nursing home programs at a combined total cost of approximately $43 million.

- Rapidly expand outpatient acute care to 21.4 million staff medical visits in FY 1989, with the provision of $90 million for this purpose, while inpatient care, which is far more costly, is held constant.

- Enact statutory provisions extending entitlement for outpatient care to all Category A veterans, the veterans who now have entitlement to inpatient care. This entitlement is estimated to involve no net costs.

- Support a continued prominent role in AIDS treatment (the VA is treating about 7 percent of all U.S. AIDS patients) funded with the $50 million increment expected to be required for caring for these patients.

- Conduct a survey to determine veterans' unmet need for VA medical care.

- Initiate a multi-faceted program to enhance the VA's recruitment and retention of critical health care professionals.

- Place a floor under resources allocated to VA psychiatric hospitals and services, with the floor at the level of FY 1987 obligations (and adjusted upward annually for payroll and inflation increases).

- Enact statutory provisions requiring the VA to pay the costs that Category A patients incur in traveling to and from VA health care facilities (above a per-trip deductible).

Table VIII, "Medical Appropriations Summary," shows the budget amounts we recommend for each of the five medical program appropriation accounts. Table IX, "Department of Medicine and Surgery Summary," shows how these budget amounts divide up between current services funding and program enhancements. Table X, "Department of Medicine and Surgery Employment," shows the employment levels we recommend in medical programs. (DM&S employment is over 90 percent of the VA's total.)

PRINCIPLES AND GUIDELINES

These recommendations for medical programs are based on a carefully developed set of 15 principles and guidelines, which follow:

1. VA patients should have available to them a sufficient quantity and balance of the various types and levels of medical care to promote maximum efficiency in the use of resources in the VA continuum of care.

2. High cost/high technology programs should be placed so that equity of geographic access is ensured for all entitled veterans. These programs should be maintained only where workload volume standards can be met within a reasonable period of time. Sharing arrangements and joint ventures should be encouraged as a means of providing the benefits of such programs with quality, efficiency, and improved geographic access.

3. High cost items, such as magnetic resonance imaging (MRI) and other expensive imagining equipment, should be identified as new budget initiatives in a separate budget line item until the cost of such technology is annualized and absorbed throughout the VA health care delivery system.

4. Equipment needs to be replaced based on schedules that recognize the rapidly changing character of medical technology and acknowledge technological obsolescence as an important factor in limiting the useful lifetime of equipment.

5. The inflation index for increments in the VA medical care budget should reflect increases in

TABLE VIII
MEDICAL APPROPRIATIONS/FUNDS
SUMMARY
(dollars in thousands)

Medical Program Appropriation	1987** Appropriation	1988 Appropriation	1988 I B Current Services*	1989 I B Current Services*	1989 IB Recommended Appropriation
Medical Care	9,712,800	10,120,000	10,158,000	10,540,900	10,818,800
Medical and Prosthetic Research	192,800	193,000	203,600	209,300	209,300
Medical Administration and Misc. Operating Exp.	41,800	47,000	47,500	48,940	48,940
Grants for Construction of State extended care	42,400	40,300	42,400	42,400	42,400
Grants to the Republic of the Philippines	500	500	500	500	500
TOTAL MEDICAL PROGRAMS	9,990,300	10,400,800	10,452,000	10,842,040	11,119,940

*Funds necessary to maintain services at the FY 1987 level

**Excludes transfers

health care industry cost indices. (The hospital market basket index and its components are available for this purpose.)

6. In planning for the VA health care system, greater attention needs to be paid to the interaction among the pluralistic systems of health care in the United States (e.g., impact on the VA of reductions in Medicare and Medicaid funding, increases in co-payments, etc.).

7. The Veterans Administration should intensify its efforts to develop, demonstrate, and implement cost effective non-institutional health care alternatives. The VA has been a leader in vertically integrated health care delivery systems and should continue its leadership role. Increased commitment to a realignment of VA health care delivery modes is needed.

8. The balance among modalities needs to shift in response to the growing impact of the needs of the aging veteran group. In particular, the VA must move swiftly and energetically to convert hospital capacity to meet nursing home care, other extended care, and ambulatory care needs.

9. The increase in VA nursing home beds obtained in recent years from new construction and from acute bed conversions is grossly lagging if the increase in demand during the coming decade is to be accommodated. VA expansion needs to be more rapid.

10. The VA should make greater use of mid-level health care providers. This is particularly applicable to the staffing of nursing homes and other long-term care facilities.

11. Changes in the budget for the VA health care system should be based upon changes in the VA user population and on workload projections for the system that are based on current experience, past trends, and anticipated changes.

12. Resources needed for activating newly constructed facilities should be accurately reflected in budget submissions and then provided in full as the facilities are activated.

13. Beneficiary travel (reimbursement for out-o pocket travel expenses) should not be coupled wit the cost of interfacility transfer of patients. To clarif the difference between interfacility transfer and beneficiary travel, both should be separate and adequately funded line items in the budget. This will ensure that they do not become a drain on direct health care dollars.

14. The Veterans Administration should share its quality assurance and cost effectiveness activities and results with the community.

15. Within every VA medical facility, the integrity of the clinical team involved in direct patient care should be maintained, with VA management and staffing of the team. Only industrial-type services should be considered for contracting out, and then only if cost savings can be achieved.

MEDICAL CARE

The medical care appropriation provides 97 percent of the funds for the VA health care system (construction excluded). It covers the delivery of VA health care in VA medical centers and other VA health care facilities. This care includes inpatient hospital care, outpatient care at both hospitals and free-standing clinics, institutional long-term care in nursing homes and domiciliaries, and several types of non-institutional long-term care. Also included in the medical care appropriation are the costs of the large-scale education and training programs conducted in VA health care facilities. In addition, the medical care appropriation pays for care of veterans in non-VA facilities in the special circumstances under which the VA is authorized to pay for such care.

TABLE IX
DEPARTMENT OF MEDICINE AND SURGERY SUMMARY
Components of Independent Budget
Recommended Appropriation
(dollars in thousands)

FY 1988	Appropriation*	10,400,800
FY 1988	Supplemental Funds Required	
	Payroll Increases	2,300
	Health Increases	800
	Other	46,000
FY 1988	Current Services Level*‡	10,452,000
FY 1989	Payroll-related Increases	112,940
	Inflation	202,900
	Facility Activations	200,000
	Decrease in Capital Investment	(134,000)
	Miscellaneous	8,200
FY 1989	Current Services*‡	10,842,040
	Initiatives:	
	Medical Care	277,900
FY 1989	IB RECOMMENDED APPROPRIATION*	11,119,940

*Obligation levels would include an estimated $65,200 in reimbursements.

‡Funds necessary to maintain services at the FY 1987 level.

THE CHALLENGE

The three challenges described in the Budget in Brief—aging, unmet need, and budget austerity—all confront the VA's medical care program.

The Aging Imperative

Beginning in the 1980s, many of the World War II and Korean War veterans (the largest groups of veterans) turn 65. The figures are dramatic, as Chart IV shows. In 1980 there were 3.0 million veterans 65 or older; by 1990 there will be 7.2 million. By the mid-nineties, one-third of all veterans will be over the age of 65. By the year 2000, there will be 9 million veterans in this age group and they will constitute two-thirds of all American males over age 65. As people age—particularly as they age beyond 65—they require progressively more health care, with their need for long-term care growing even more rapidly than their need for acute care. A few statistics on veterans' actual use of VA care prove the point. Although veterans aged 55 to 64 are the highest users of VA inpatient hospital care among veterans under 65, veterans 65 to 74 use VA inpatient care about one-third more often (see Chart V). For veterans 75 to 84 the use rate is, in turn, almost twice that for veterans 55 to 64. Although this increase in use of VA inpatient hospital care is dramatic, it is small compared to the statistics for nursing home care. As Chart VI shows, nursing home use by men 85 and older is almost 30 times the rate of use by men 55 to 64.

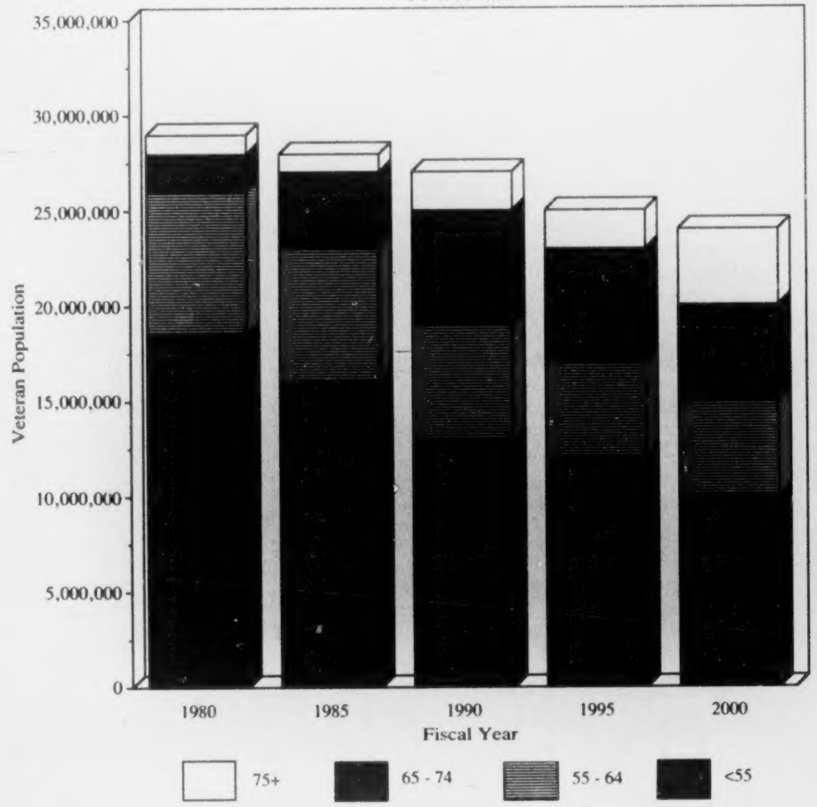
TABLE X
DEPARTMENT OF MEDICINE AND SURGERY
EMPLOYMENT

Medical Program Appropriation/Fund	FY 1987 Actual	FY 1988 Estimate	1989 IB Recommended Appropriation
Medical Care	194,459	194,140	199,348
Medical & Prosthetic Research	4,874	4,817	4,817
Medical Administration and Miscellaneous Operating Expenses	874	898	898
Canteen Service Revolving Fund	3,348	3,800	3,800
Total Employment	202,661	203,758	207,960

Meeting this rapidly growing and changing need of the aging veteran population is a very significant driving force behind our policy for the medical care appropriation.

The VA's 1984 publication, "Caring for the Older Veteran," stated, "the VA stands prepared to meet the real expanding and changing health care needs which result from the aging of the veteran population," and there followed a comprehensive analysis of the extensive facilities required for even partial satisfaction of this aging imperative through the coming decade. Very little attention has since been given to this preparation. Gross delays in accomplishing any meaningful conversion of excess hospital beds to nursing home care use is a case in point. Considering the long VA lead time for any proposed facility construction, time is already short if the health care system is to be ready for the expected heavy onslaught of medical care demand.

Chart IV
Veteran Population
FY 1980 - 2000



Unmet Need

Quite apart from the growth in demand the VA health care system faces each year, it already, ***currently,*** faces serious problems of unmet need. These include both (1) problems of unmet need that remain after the changes in entitlement and eligibility for VA care enacted in 1986 in PL 99-272, and (2) problems of unmet need generated by developments in health care both within the VA and external to it.

The VA health care system has always been distinguished for offering patients a comprehensive, coordinated continuum of care. However, as entitlement and eligibility rules now stand under PL 99-272, most veterans in Category A, with clear entitlement to inpatient care are not entitled to outpatient care except in very restricted circumstances.[2] (These special circumstances are (1) "to obviate the need" for inpatient care and (2) as a follow-up to inpatient care.) In our discussion with top management officials across the VA health care system, we found that the majority of VA medical centers are greatly reducing access to ambulatory care by restrictive use of the "obviate-the-need" clause. This is a dollar-driven decision made irrespective of a physician's professional judgment. Some hospital managers stated that because of inadequate resources only in acute emergencies are non-service-disabled medically indigent veterans provided ambulatory care. Basing a decision to provide or deny medical care on a variable and financially motivated interpretation of "obviating the need" for hospitalization leads to poor management of chronic illness--which requires regular, periodic care. It is bad medicine—and often bad economics—to turn away veterans needing outpatient care on the grounds that their current condition is not sufficiently severe to require hospitalization. It invites acute, serious, and costly complications and is also a contradiction of the current national emphasis on non-institutional care.

Needy veterans turned away from the VA because of its tight restrictions on ambulatory care are likely to have no alternatives to the VA care they are denied other than Medicaid, and males under age 65 generally are not eligible for Medicaid no matter how poor they are. Thus, these veterans are likely to add to the uncompensated care burden that private providers are increasingly shunning, or to fail entirely to obtain care when it is needed.

(The Medicaid patient, incidentally, is provided ambulatory care regardless of the likelihood of hospitalization, an arrangement certainly more cost-effective than is inviting a crisis need for acute inpatient care through patient neglect.)

Chart V
VA Hospital Discharge Rates
FY 1987

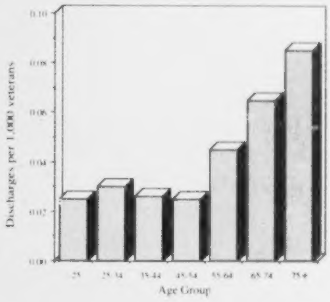
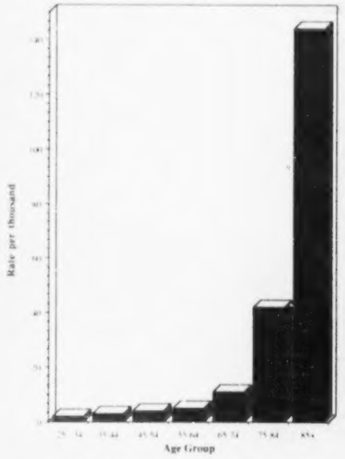


Chart VI
Nursing Home Use Rates
1985*



*1985 male civilian use rates from National Nursing Home Survey

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[2] Category A consists of service-disabled veterans, ex-POW's, veterans of WWI or earlier conflicts, veterans exposed to ionizing radiation and Agent Orange, recipients of VA pensions, veterans with Medicaid, and other low-income veterans. In total, Category A veterans number about half of the nation's 28 million veterans.

Restrictions on outpatient care are not the only major challenge of unmet need for VA health care. Recent VA outreach activities conducted as part of the federal-government-wide homelessness initiative have shown further unmet need. Several thousand homeless veterans have been found, many of them with very extensive needs for medical care (most prominently for psychiatric problems). This is at a time when VA psychiatric staffing has been reduced by 2,000 FTEE during the past five years.

We have also learned from VA hospital officials of several other problems in providing the full health care services VA patients need. Most prominent among these are:

- Closure of bed units or *de facto* restriction in the number of patients treated on some units due to staffing shortages.
- Cut-backs in operating room time, also due to staffing shortages.
- Failure to undertake relatively expensive elective surgery because of its cost.
- Inordinate delays in provision of expensive prostheses.

In addition, as we noted in last year's Independent Budget, the problem of unmet need arises because of the VA's cut off of beneficiary travel funds.

Finally, some veterans who need VA care do not know of their entitlement to it, and others have given up trying to obtain it because of barriers such as the absence of beneficiary travel reimbursement or the "obviate-the-need" clause. These, too, are veterans with unmet needs for VA care.

Budget Austerity

The third challenge that faces VA medical care today is the overall federal budget deficit. This imposes a requirement that the VA find the most economical solutions for addressing unmet need and for managing the demands of an aging veteran population.

OUR STRATEGY

In part, the funds needed to deal with the growing health care needs of the aging veteran population and with current unmet need are available because the aging veteran population uses benefit programs (as opposed to medical programs) less and less frequently. (Some specifics are pointed out above in sections on veterans' benefit programs.) As a result, in future years, the cost of benefits programs will increase less rapidly than inflation. All such savings should be regarded as funds available to meet health care needs.

Beyond this, our strategy to deal with unmet and growing need in light of budget constraints focuses on rapid expansion of non-institutional health care programs. This focus holds in both acute and long-term settings. These non-institutional care programs not only cost less than institutional care but also provide veterans more independence and more contact with their families and communities.

The historical roots of the VA system, like its affiliated academic health care centers, are in institutional care—hospital inpatient care on the acute care side and nursing home care on the long-term care side. Like the private medical sector, the VA system has been moving to more use of non-institutional care—that is, to expanding both outpatient acute care and a variety of non-institutional long-term care modalities—and the results this last year have been gratifying in some respects. A further shift to non-institutional care modalities must be an important thrust for the future.

Another aspect of our economizing strategy consists of restricting initiatives in medical programs solely to the medical care appropriation. Despite important needs in other areas (such as research and administration), in this year of great budget austerity, we propose initiatives solely in the medical care area, because that area directly affects patient care.

Another important component of our strategy for dealing with unmet need is to undertake a series of data-gathering activities to identify more accurately the extent and exact character of unmet need for VA care.

As the above discussion indicates, there is strong evidence that several kinds of unmet medical need are extensive. However, information on the size of each unmet need is not available—the VA has, unfortunately, failed to obtain this information.

SPECIFIC RECOMMENDATIONS

Our specific recommendations for putting this strategy into effect follow. We discuss first what is needed merely to maintain current services—i.e., to continue to provide the same level of VA medical care services as was provided in FY 1987. We then present the specific program enhancements we recommend. Table XI shows the specific budget dollar amounts that are part of these recommendations.

Current Services

Provide an increase of $38 million in FY 1988 and a further $383 million in FY 1989 to fully fund current services. As Table XI shows, the enacted appropriation for FY 1988 for medical care is $10,120 million. Congress stipulated that this funding was to support 194,140 thousand FTEE in the VA's medical care programs, essentially the FY 1987 level (see Table X). However, as Table XI also shows, approximately $38 million in supplemental appropriations is required in FY 1988 to maintain the 1987 level of program activity. (This amount needed to maintain FY 1987 levels of program activity is what we mean by "current services.") We call upon the Congress to appropriate the additional $38 million for FY 1988 so the VA will not have to cut into such already burdened spending categories as equipment purchase to sustain direct hands-on-care delivery.

Because of payroll-related increases, approximately $109 million more will be needed to maintain the same level of staffing in FY 1989 (see Table XI). The 1989 pay raise is the largest component of this increase. In keeping with our budgeting principles, we have included this pay raise "up front" rather than leaving the agency to be caught without all the needed funds, and forced to absorb the raise by cutting elsewhere, as OMB has often directed. For non-payroll items, inflation is expected to require an increase of approximately $200 million in FY 1989 appropriations over the FY 1988 level merely to maintain the same level of program activity.

Activations during the course of FY 1989 of facilities under construction are expected to require approximately $200 million (again, see Table XI). This sum includes both equipment needed for these facilities and staff to operate them during the part of FY 1989 after they open. Activation of facilities is a complex area for budget estimates and is one of the areas in which information available to us is least satisfactory. Therefore, we are unable to form a fully independent judgment on the amount likely to be needed in FY 1989.

We suspect that the estimate of $200 million may be too low because it assumes too much "slippage"—i.e., delay of activation beyond the planned opening date. However, we have used the $200 million estimate in order to be fiscally conservative. We do, however, want to reiterate the point made in Principle #12: There should be an end to *sub rosa* budget cuts made via arbitrary and excessive assumptions about the amount of slippage in activation dates that will take place. As an offset to activation costs, there are the costs of capital investments made in FY 1988 activations. These and other capital costs that do not recur in the FY 1989 base

TABLE XI
MEDICAL CARE
Components of Independent Budget Recommended Appropriation
(dollars in thousands)

FY 1988	APPROPRIATION°	10,120,000
	Supplemental Funds	38,000
FY 1988	Current Services Level°‡	10,158,000
FY 1989	Payroll-related Increases	
	Federal Empl. Retirement System	33,200
	Annualization of Pay Raise - 1988	27,200
	Annualization of FEHB - 1988	13,300
	Pay raise 1989	82,000
	Reduction of 2 workdays	(47,000)
	Facility Activations	200,000
	Capital Investment Adjustments to 1988 Base	(134,000)
	Inflation	200,000
	Uncontrollable Workload Changes	
	State Home	5,900
	Miscellaneous	
	Property Rental	2,300
FY 1989	Current Services Level°‡	10,540,900
	Extended Care Program	84,700
	Outpatient Workload Increase	91,200
	Postgraduate Inservice Training	9,000
	Education and Training	11,000
	DHCP	22,000
	Beneficiary Travel Increase	30,000
	AIDS	80,000
	Contract Hospital Payment Reform	(20,000)
FY 1989	IB RECOMMENDED APPROPRIATION°	10,848,800

°Obligation level would include an estimated $60,000 in reimbursements
‡Funds necessary to maintain services at the FY 1987 level

total a net of some $134 million.

While discussing capital investments, we want to express our concern about the likelihood that the VA backlog of equipment needs is growing and has become excessive. According to some tallies, this backlog exceeds one-half billion dollars. We know that in some cases the VA is using outmoded equipment, but we do not have the detailed information that would permit us to propose a specific program of remediation. However, we would point out that inadequate funding for equipment resulting in use of outmoded equipment means the VA is prevented from providing up-to-date medical care in at least some instances. The problem is compounded by the VA's use of lifetime schedules for equipment that do not adequately reflect technological obsolescence as a factor in the need to replace it.

Combining all the previous adjustments (plus the smaller ones shown in Table XI, but not discussed here) shows that the current services level for the medical care appropriation for FY 1989 is $10,541 million. It is important to recognize that while this figure is more than $400 million dollars above the funds provided by the already enacted FY 1988 appropriation, an increase of this size is required merely to continue to provide the same level of services in FY 1989 as was provided in FY 1987.

This $400 million plus for current services exceeds the amount needed to cover all our recommended program enhancements. ***In other words, the largest portion of the dollar increase we recommend is not for new or expanded activities, but is required just to keep up with rising costs of the existing base of health activities.***

Program Enhancements

Fund enhancements totalling $278 million. Most of our recommended program enhancements consist of enhancements of extended care programs and expansion of outpatient care. As noted above, aging creates a need for particularly rapid expansion of extended care services, and outpatient care is being emphasized both because it is currently constricted and because it is an economical modality of care. Most of our recommended enhancements represent steps toward targets for 1990. These targets are shown in Table XII.

We have, in some cases, taken our targets for non-institutional extended care from "Caring for the Older Veteran," the VA's own document on how the agency

TABLE XII
1990 WORKLOAD TARGETS

VA Hospital Inpatients Treated	1,100,000
Contract Hospital ADC (Average Daily Census)	700
Staff Outpatient Visits	*22,100,000
Fee Basis Outpatient Visits	1,880,000
State Home Nursing ADC	10,450
VA Nursing Home ADC	14,500
Community Nursing Home ADC	13,300
VA Domiciliary ADC	7,000
HBHC Programs — Contract and VA	100
ADHC Programs — Contract and VA	100
Geriatric Evaluation Units	172
GRECC Programs	25
Respite Programs	172
Hospice Programs	76
Community Residential Programs	172

*includes dialysis visits

must change and expand to meet the challenge posed by the aging of the veteran population. However, in taking targets from this source, we have been conservative in three ways. For one, we have taken the lower end of the range of the 1990 estimates in "Caring for the Older Veteran" as our target. Second, we have planned to meet targets through innovative, economical responses. Finally, in some areas, our initiatives are far short of the steps that would be needed to meet the targets by 1990. We judged the increases that would be needed as just too costly. Table XIII details the actual extended care workload levels we expect to reach in FY 1989.

The methodology used for developing workload targets is explained along with targets in each area.

Extended Care

Fund expansions totaling $85 million and 1,300 FTEE in FY 1989. The most complex initiative we propose is in the field of extended care. In it, we have emphasized non-institutional forms of care for several reasons. For one, they maximize veterans' independence and the extent to which veterans in need of care remain in familiar home and community settings, among relatives and friends. These results are desirable

TABLE XIII
EXTENDED CARE INITIATIVES

PROGRAM TITLE	FY 1988		FY 1989		ADDITIONAL	
	WORKLOAD	PROGRAMS	WORKLOAD	PROGRAMS	OBLIGATIONS**	FTEE
VA NURSING HOME						
Census*	11,643	122	13,300		26,100,000	609
COMMUNITY NURSING HOME						
Census*	12,250	163	12,650		11,200,000	0
VA DOMICILIARY						
Census*	6,500	27	6,500			
HBHC						
VA Programs		68		60	3,530,000	72
Contract Programs				10	2,500,000	0
ADHC						
VA Programs		15		25	3,550,000	80
Contract Programs		35		55	8,320,000	0
COMMUNITY RESIDENTIAL PROG.						
Programs		125		150	1,640,000	50
GERIATRIC EVALUATION UNITS						
Programs		80		150	10,190,000	210
GRECC						
Programs		12		16	10,380,000	48
RESPITE						
Programs		1		81	1,280,000	40
HOSPICE						
Complete Programs		2		50	5,990,000	144
TOTAL					84,700,000	1,300

*Average daily patient population
**In actual dollars

in and of themselves. Second, the emphasis on non-institutional long-term care helps rectify the balance in the VA system, which has large, long-established institutional long-term care programs (the nursing home and domiciliary programs), but less extensive non-institutional programs. Finally, but certainly not least important for this budget, non-institutional care usually is less expensive. Any given level of funding can bring extended care to many more veterans if it is used for non-institutional long-term care than if it is used for institutional care.

1. As Table XIII shows, the **expansions of non-institutional extended care programs** we propose are as follows:

- **Increase VA Hospital-Based Home Care (HBHC) programs from 68 to 80 and also initiate the first ten contract HBHC programs at a cost of approximately $6 million.** HBHC allows for the early discharge to their own home of veterans with chronic illness, who (for the most part) are expected to remain bedbound or housebound. HBHC also reduces readmissions to the hospital. The veterans' families provide the personal care the veterans need, under coordinated supervision of a hospital-based, multidisciplinary treatment team. This family provision of personal care keeps costs down. In turn, the team provides other types of care to veterans in the program including medical, nursing, social, dietetic and rehabilitation regimens. The VA team also provides needed training to family members who are responsible for the personal care of the patient. Patients and families find this program attractive because it preserves and supports the family unit by bringing health services to the home. A recently completed VA evaluation tested and proved the medical efficacy of VA HBHC. Already, the number of VA HBHC programs has increased from 30 in 1983 to a planned 68 in 1988, and the study shows the wisdom of a continued rapid expansion. VA medical centers have realized the desirability of having HBHC programs, and most of the recent increase has been accomplished from existing resources, without add-on funding earmarked specifically for initiating HBHC programs. The increase to a total of 80 HBHC programs recommended for 1989 is part of a strategy to reach 100 programs by 1990.

- **Increase Adult Day Health Care (ADHC) programs from 15 VA programs and 35 contract programs to 25 VA programs and 55 contract programs at a cost of approximately $12 million.** ADHC provides medical, rehabilitative, social, recreational, and health education services to veterans in a congregate setting during normal working hours. The provision of ADHC services enables veterans to live at home in a supportive environment rather than be institutionalized at a significantly higher cost of care. Patients referred to these VAMC-centered programs are usually, but not exclusively, elderly veterans in need of supportive medical/rehabilitative care to maintain function or to continue treatment. The VA's ADHCs are distinguished from senior centers and other social model day centers by their strong medically directed health care component. The number of ADHC programs has increased from five in 1983 to 50 in 1988. The recommended increase is part of a strategy to have 100 ADHC programs operating by 1990.

- **Increase Community Residential Care (CRC) programs from 125 to 150 at a cost of approximately $2 million dollars.** The CRC program provides residential care—including room, board, and limited personal care and supervision—to veterans who do not require hospital or nursing home care but who, because of medical or psychosocial health conditions, are not able to live independently and have no suitable family resources to provide needed care. There is no cost to the VA health budget for the care provided; veterans pay for this care themselves, often with their pensions. Costs to the medical care appropriation are for supervision of the program, including inspection of residential care homes. Veterans in the program receive monthly follow-up visits from VA health care professionals and are outpatients of their local VA medical centers. This continued VA involvement and VA responsibility for medical care assures the quality of both the residential and medical care received by patients in the program. The increase in the number of programs to 150 in 1989 is part of the long-term strategy outlined in "Caring for the Older Veteran." Our aim is to have community residential care programs operative at all 172 VA medical centers by 1990.

- **Increase the number of Geriatric Evaluation Units (GEUs) from 80 to 150 at a cost of approximately $10 million dollars.** GEUs provide comprehensive medical, functional, psychological, and environmental assessment to improve treatment and discharge planning for elderly patients typically having multiple medical problems. Geriatric evaluation units function in hospital settings, caring for patients who have secondary problems that are detected during the hospital treatment of a target illness. GEUs also function in outpatient settings. Here they serve to forestall or prevent inappropriate placements in extended care institutions. The objectives of GEUs include improving diagnosis, usually by identifying significant disabling conditions that, if untreated, could result in greater amounts of institutional care; improving treatment and management of chronic illnesses and concomitant medical problems associated with illnesses; and reducing inappropriate placement in long-term care institutions. Controlled studies show that GEUs often more than pay for themselves by reducing institutionalization of the patients they serve. VA medical centers have reorganized this direct cost-reducing aspect of GEUs and increased the number of GEUs from 60 in FY 1987 to 80 in FY 1988 without receiving additional funds specifically for expansion of the program. The proposed increase in the number of GEUs is part of a strategy to have GEUs functioning in all 172 VA medical centers by 1990.

- **Increase the number of Geriatric Research, Education, and Clinical Centers (GRECCs) from 12 to 16, making one a center dedicated to spinal cord injury and geriatrics and another a center for amputees and geriatics, at a total additional cost of approximately $10 million.** GRECCs are centers of excellence designed for the advancement and integration of geriatric and gerontological research, education, and clinical achievements into the total VA health care system. Implicit in this program is the development of new knowledge of aging and geriatrics, the codification of existing knowledge, the development and testing of alternative modes of geriatric care, and the education and training of health care professionals. An expanded GRECC program will allow the VA to maintain its clinical and educational leadership role in dealing with the problems of aging. It will foster the development of new approaches to care that meet the twin goals of improvement in care and cost containment. The increase in the number of GRECCs is part of the strategy outlined in "Caring for the Aging Veteran." The timetable with respect to GRECCs has slipped, and our current goal is to have 25 GRECCs, the maximum number currently authorized by statute, operating soon after 1990. This will come close to having a GRECC in every one of the VA's 27 medical districts.

Of the four new GRECCs, one should be a dedicated center for spinal cord injury (SCI) and geriatrics and another a center for amputees and geriatrics. Alternatively, we recommend redesignation of two of the existing GRECCs as such centers. The VA indicated an additional 3 FTEE and $250,000 would be needed to effectively carry out a change in mission to an SCI GRECC, and we recommend these resources be provided if the SCI GRECC is established by changing the mission of an existing GRECC.

- **Increase the number of formalized Respite Care programs from 1 to 81 at a cost of approximately $1 million.** Respite care enables an elderly or disabled veteran to be institutionalized periodically to allow a period of relief for the spouse or relatives who normally care for the patient. With this relief from ceaseless responsibility for care, the strain upon caregivers is reduced, and they remain willing to provide care for the veteran (rather than institutionalizing him) for a longer period. VA respite care strengthens the link between the VA, the veteran, and the caregiver, and has reinforced the critical role that the spouse and family play in providing care. Respite care programs produce their gains for an extremely low cost. They make use of temporarily empty hospital beds and the care staff associated with these beds, making the net program cost little more than the staff time required for program coordination. Although the VA health care system currently has only one formalized respite care program, numerous VA hospitals have been informally operating such programs for a number of years. Our strategy of increasing the number of programs to 81 in FY 1989 is a step on the way to our goal of having respite care programs operating at all 172 VA medical centers by 1990.

- **Increase the number of Hospices from 2 to 50 at a cost of approximately $6 million dollars.** The hospice program enhances quality of life for veterans with terminal illnesses. Through use of the Hospital-Based Home Care (HBHC) team, it allows many of these patients to remain at home among familiar surroundings and family. Hospice programs also include an inpatient palliative care unit for terminally ill patients who cannot be cared for at home. As its name suggests, the objective of this unit is relief of symptoms and comfort for the patient. Hospices also provide bereavement counseling to a patient's family after his death.

2. **Nursing homes. Increase the nursing home census by approximately 3,000 at a cost of $43 million.** Despite the preceding major expansions of non-institutional extended care, an increase in institutional long-term care remains necessary to serve the growing number of veterans whose severe functional limitations make it impossible to care for them in a non-institutional setting.

Our targets for nursing home care are based on new analysis grounded in the 1985 National Nursing Home Survey.[3] Data from this survey first became available this year, and the VA's planning for nursing homes has not yet incorporated this important new source of information. The 1985 survey shows that nursing home use rates for each age group are no longer increasing, contrary to the pattern found in earlier surveys. (The most recent earlier survey covered 1977.) Our planning therefore assumes a constant use rate for each age group of veterans, much as shown in Chart VI, with future increases in the number of veterans in nursing homes resulting only from aging of the veteran population. Based on the new survey, the number of veterans in nursing homes under VA auspices was estimated to be 20 percent of all veterans in nursing homes, and our targets assume a continuation of this 20 percent rate. In addition to VA-owned and operated nursing homes, this 20 percent of all veterans in nursing homes will be accommodated in state nursing homes for veterans, for which the VA provides construction and operating subsidies, and in community nursing homes that contract with the VA to provide care for veterans.

Much of the VA's planning for an increased nursing home census has been based on the premise that the large majority of the increase should be undertaken in the state and community nursing home programs that the VA supports, since their costs to the VA are lower than those of VA-operated nursing homes. A commonly stated goal is for 40 percent of the census to be in community nursing homes (up from 39 percent in 1987), 30 percent to be in state homes (up from 27 percent in 1987), and 30 percent to be in VA nursing homes (down from 35 percent in 1987). Such plans assume that major expansions will occur in available state and community nursing home space.

We are skeptical. Largely as a Medicaid cost-control device, many states have frozen or severely restricted construction of new nursing homes within their borders. In this climate, availability of more places for VA-sponsored patients is questionable. Any increase in VA-sponsored census is likely to require displacing other patients, which will create strong resentments in the community. Moreover, an increase in VA census is likely to create a bidding war against Medicaid, with the likely result being higher costs to the federal government for both Medicaid and VA health care. As regards the state home program, states have shown only a limited willingness to accept the VA's construction subsidies for state veterans nursing homes, since most of the cost of operating these state homes is borne by state budgets. Thus, a very rapid increase in the capacity of state veterans nursing homes seems doubtful.

Our planning is based on the maximum expansion that currently seems feasible in the state and VA-operated nursing home programs, with the community nursing home program providing the additional places needed. Chart VII shows the VA-sponsored nursing home census included in our plans.

In the near term, we have planned for the VA nursing home program to incorporate the beds added by nursing homes now in the construction "pipeline" and also to grow through conversion of approximately 1,000 VA hospital beds a year. However, if projected bed conversions are to be accomplished, a very prevalent negative attitude on the part of many VA hospital administrators and clinicians must be overcome. The FY 1987 VA budget called for the conversion of 113 beds and the VA's FY 1988 budget promised the conversion of 547, but no significant number of these conversions has yet been accomplished. Moreover, the FY 1987 MEDIPP plan proposed the conversion of only 1,085 beds by 1991, an inadequate number if projected need is to be met. The attitudes hostile to conversion must be overcome by top management of the VA medical system, and our targets for conversions must be achieved.

For the longer term, we propose to add almost 500 VA nursing home beds a year through the completion of four new 120-bed nursing homes annually. Work on these new nursing homes must start now—and appropriations for four of them are included in our FY 1989 construction budget*—because it takes several years from initial construction planning to completion of a VA nursing home. (The construction program required by VA nursing home expansion is described below, in the chapter dealing with construction.) In the longer term, we also envisage adding approximately 500 to 1,000 VA nursing home beds a year through conversion of available hospital beds to nursing home space.

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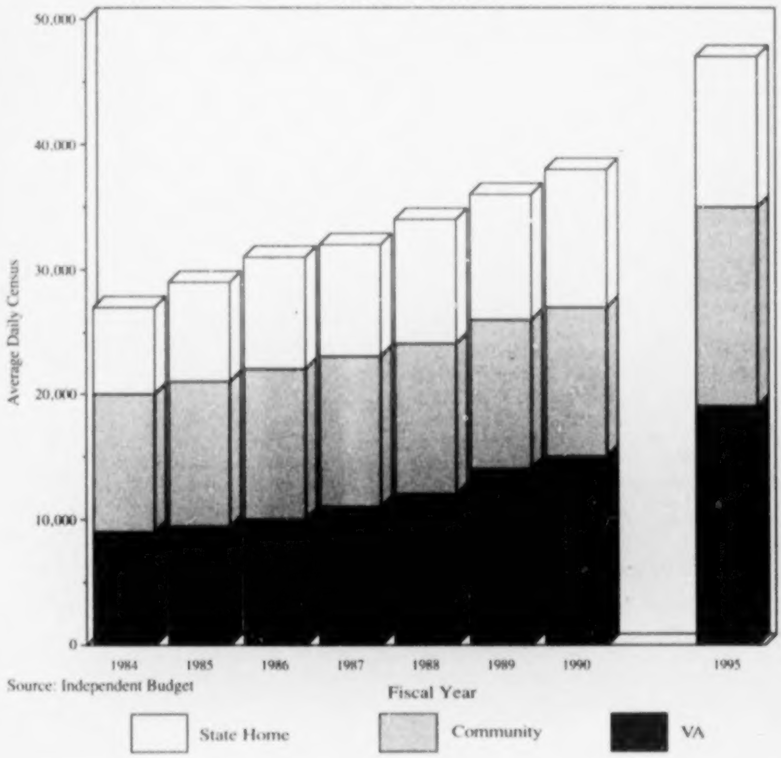
[3] While the National Nursing Home survey is recognized as the authoritative source of data on nursing homes, one should bear in mind that nursing home utilization during the study period was constrained by external factors that may not continue to exist in the coming decade. These factors included moratoria in many states on the construction of additional nursing homes and federal budget cuts in Medicaid.

We recommend a conversion goal that is this flexible and modest because the opportunity for conversion is often more limited than it first appears. There is a geographic problem in that excess acute care beds are not always available for conversion in areas where more nursing homes beds are needed. Moreover, nursing homes require large, contiguous blocks of space, not a few odd beds here and there, and also require recreational and social meeting space. For this reason, we recommend 60 bed blocks as the optimum unit size for conversion to nursing home use. Blocks of space available for conversion

Chart VII
Average Daily Census - VA Nursing Home Program
FY 1984 - 1995



Source: Independent Budget

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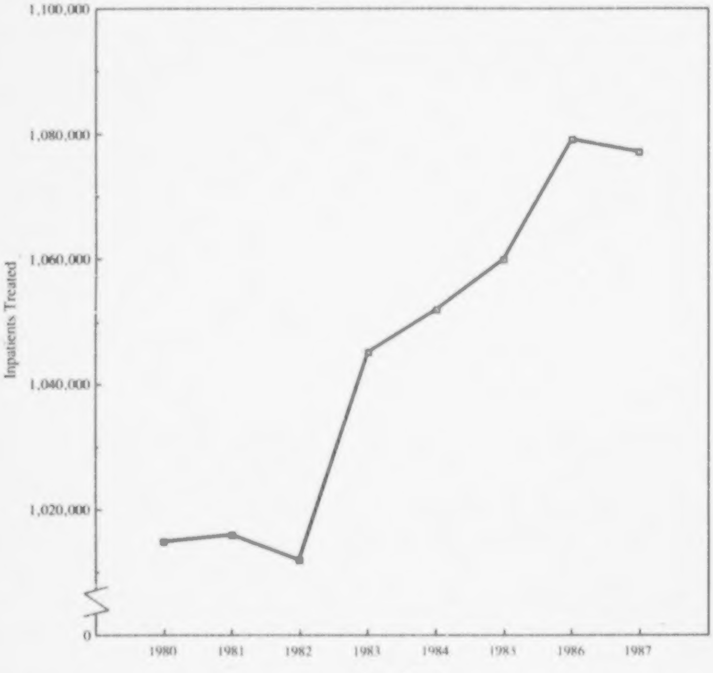
*We are not attempting to dictate the sites for this construction, but note that the previously proposed Palm Beach nursing home project is particularly needed.

include beds occupied by hospital inpatients who require a nursing home level of care although they are classified as intermediate care patients. Blocks of beds smaller than 60 should be converted where nursing home beds are needed and the conversion can be accomplished in a cost-effective manner—especially if expanding community nursing home placements is not feasible or desirable.

It is important to note that the conversion of empty beds from acute hospital care to nursing home use does not free up care staff and funds for use in providing the nursing home care. The care staff assigned to hospital patients remains fully occupied. Basically, the amount of work involved in caring for inpatients depends on the number of patients treated, and this has not declined. The inpatient hospital care census has declined only because more intensive care, which requires more staff per patient, is being provided to inpatients, and it is only this more intensive care that permits the inpatient hospital census to be lower. Moreover, hospital staff are more occupied than before because of the increased number of outpatients being seen.

As shown in Tables XII and XIII, our specific plans call for increasing the census in VA-operated nursing homes from approximately 11,600 in 1988

Chart VIII
VA Hospital Patients Treated *
FY 1980 - 1987



* Excludes dialysis

to some 13,300 in 1989 and 14,500 in 1990. The staff associated with the 1989 increase (approximately 600 FTEE) and the associated cost (approximately $26 million) are shown as part of our extended care initiative in Table XIII. To meet the overall needs for nursing home care, we are also proposing an expansion of the community nursing home program from an average daily census (ADC) of approximately 12,250 in FY 1988 to 12,650 in FY 1989, at a cost of approximately $11 million, and an expansion of the state veterans nursing home program with an increase in census of approximately 900—at a cost of $6 million. (VA budget accounting, which we have followed, counts this $6 million for expansion of the state veterans nursing home program as part of the current services increase, as shown in Table XI.)

Chart VII shows the increase in the census in the three VA-sponsored nursing home programs that have occurred in recent years and the increase that we recommend for the future.

Hospital Inpatient/Outpatient Workload

Freeze inpatient hospital care. Despite the aging of the veteran population and the broadening of eligibility and entitlement brought about by PL 99-272 (which stipulates that the VA shall provide inpatient care to all Category A veterans who need and seek it from the VA), the number of patients treated[5] as inpatients in VA medical centers was essentially the same in FY 1987 as in FY 1986, as shown in Chart VIII. Staff shortages are certainly a major factor. But we also attribute this stabilization in the number of inpatients treated—after years of increase—to the VA's success in shifting care to non-inpatient care modalities, which are more economical. The key to providing the most health care for the limited dollars available in this era of constrained budgets lies in increasing reliance on non-inpatient care; therefore we do not recommend any increase in the inpatient hospital workload.

Expand outpatient care to 21.4 million visits, funded with $90 million. Recent data provide evidence of the VA's success in shifting the balance in the care it provides more toward outpatient care, which is less expensive than inpatient care. Chart IX shows that the outpatient visit rate increased for almost all age groups between FY 1986 and FY 1987. While inpatient care workload ceased growing in FY 1987, Chart X shows that the growth in "staff" (i.e., VA-provided) outpatient medical visits was approximately 1.4 million visits in FY 1987, or seven percent, twice the growth rate seen in previous years and far in excess of what the VA had initially planned for FY 1987.

Based on the rapid growth achieved last year, and in support of a still further shift to the less costly outpatient care modalities, we recommend the VA plan to provide 21.4 million outpatient medical visits[6] in FY 1989. We have recommended $90 million for the increase. (About seven percent of the increase will be funded and staffed by facility activations. As well, a small part of the increase is provided through the expansion of non-institutional geriatric and extended care programs, and will be funded by the recommended increase in those programs that is discussed above.)

Provide outpatient care entitlement for all Category A veterans at no net cost. As noted above (in the section on the challenge presented by unmet need), the VA's current restriction on outpatient care leads to poor care and quite possibly is costly. The VA health care system has always been distinguished for offering patients a comprehensive, coordinated continuum of care. The veterans' service organizations have previously expressed their regret that PL 99-272 did not endorse that concept in the course of realigning entitlement for Category A veterans. Unrestricted outpatient care for all Category A patients would not only make for better quality of care, simplify administrative management, encourage preventive care, and reduce the incidence of acute complications, but would also—in the last analysis—better serve cost containment. Indeed, a Congressional Budget Office estimate (prepared in connection with bills that eventually led to PL 99-272) was that there would be no net cost of providing entitlement to outpatient care for Category A veterans because reductions in inpatient care would offset the increase in outpatient care that would result.

We urge the Congress to expand outpatient care entitlement to all Category A veterans based on the same rules of access to care as apply to inpatient care. A legislative proposal to this effect is being separately submitted.

Develop an organized human resources plan to combat staffing shortages. We note with satisfaction that legislation is proposed in the Congress to provide

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[5] Patients treated, the VA's workload measure for inpatient care, equals the number of patients discharged during the year plus the number who are in hospitals at the end of the year.

[6] These figures on outpatient visits include same-day dialysis treatments, which the VA had previously counted as inpatient episodes.

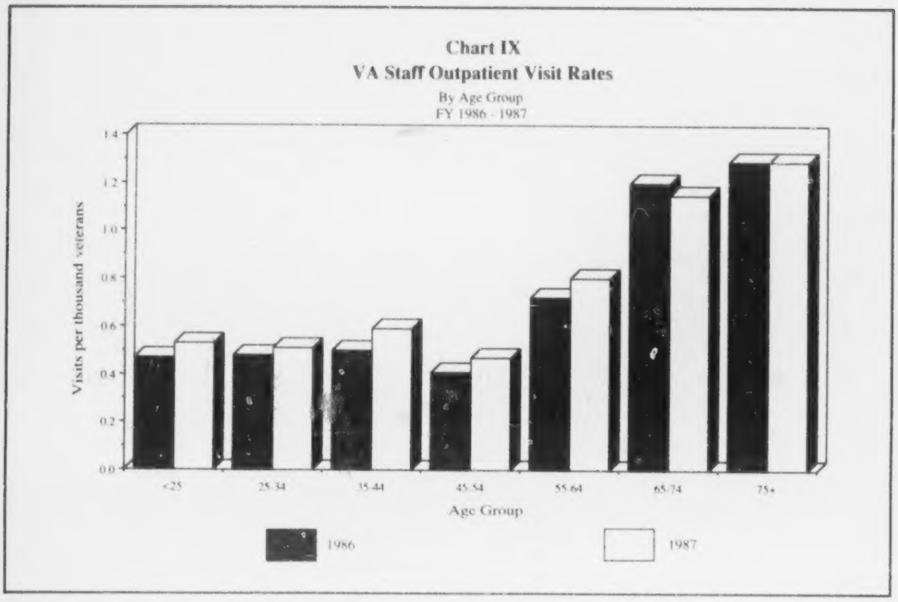


Chart IX
VA Staff Outpatient Visit Rates
By Age Group
FY 1986 - 1987

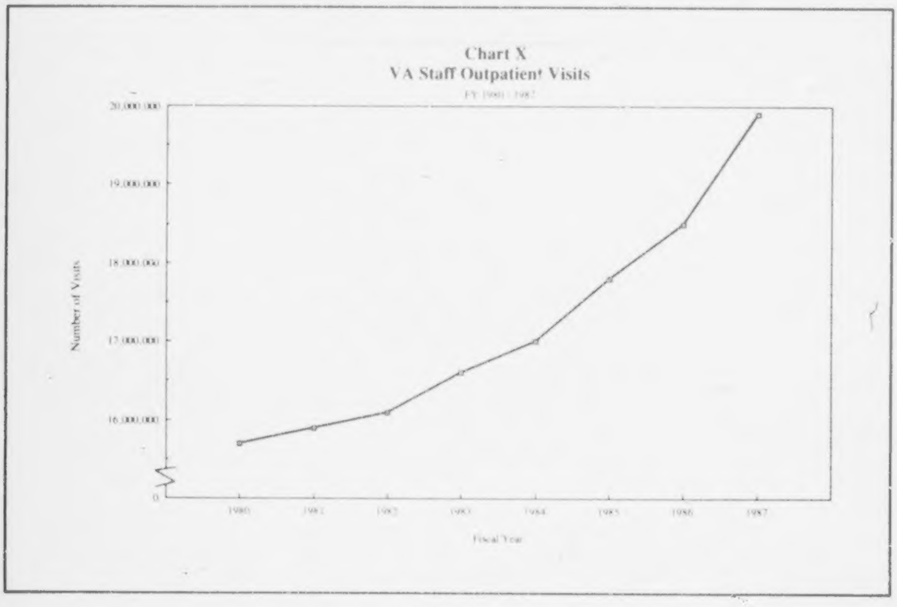


Chart X
VA Staff Outpatient Visits
FY 1980 - 1987

the VA with incentives to assist in recruiting and retaining qualified nurses and other scarce health professionals. The shortage of such personnel has reached critical proportions. In many VA hospitals, a sizeable percentage of beds is closed for want of staff.

A hospital labor shortage is now recognized as one of the most pressing issues facing the nation's health care system. It is not confined to the nursing profession or to particular locales. The whole field of rehabilitation is faced with a short supply of personnel, including physical therapists, occupational therapists, and speech and hearing therapists.

Recruitment competition is intensive, with hospitals in the private medical sector making desperate efforts to boost salaries and offer innovative compensation. In addition, hospitals are offering child day care centers, payment of the cost of moving, and payment for continuing education and for organizational membership dues and license fees.

The hospital labor shortage is not a transient phenomenon. The federal government has recently predicted a national shortage of 1.2 million registered nurses by the year 2000. The VA would be well advised to develop and implement a human resources plan for

TABLE XIV
INPATIENT PSYCHIATRY

Fiscal Year	*Total FTEE Inpatient Psychiatric Bed Sections	Episodes of Inpatient Treatment	Number of Unique Patients Treated
1983	21,198.7	177,575	115,313
1984	20,999.0	177,075	115,175
1985	19,102.5	183,667	120,020
1986	19,102.5	196,009	**
CHANGE FROM FY 1983 TO 1986	minus 2096.2 (minus 10%)	plus 18,434 (plus 10%)	plus 4707** (plus 4%)**

*FTEE appearing in all Tables are Direct Care staff only excluding outreach staff.
**FY 1986 data not yet available; change is 1983 to 1985.

these employees to create the kind of environment that recognizes their professional contributions, provides for professional growth, and accommodates their personal needs. In this category of accommodating personal needs, the provision of child care centers, transportation and parking arrangements, shift differentials, and part-time employment options are particularly meaningful.

The staffing shortage demands more than crisis attention applied intermittently. To remain competitive, the VA must develop an organized, systematic human resources plan throughout its health care system that incorporates all available employment incentives.

Stem the erosion of psychiatry resources by instituting a floor at the FY 1987 resource level. When, several years ago, a DRG-based resource allocation methodology (RAM) was first implemented in the Veterans Administration health care system, misgivings were voiced that the cost of psychiatric care could not be accurately estimated by diagnostic categories alone. The counter argument prevailed, however, and it was decided that psychiatric inpatient care would be considered acute care for DRG purposes. This decision was counter to that later made by the Health Care Financing Administration (HCFA). Under the Medicare program, psychiatric hospitals and distinct psychiatric units of general hospitals are not currently subject to DRG reimbursement. Experience has shown that DRGs for mental illness consistently perform poorly in predicting patient length-of-stay or resources needed for an episode of inpatient care. The same problem shows up in the fact that a psychiatrist, on the basis of an admitting diagnosis only, cannot predict with accuracy the duration or severity of any given episode of mental illness. Nonetheless, the VA has applied the DRG-based RAM to all psychiatric admissions, a procedure leading to inappropriate resource allocation.

Another negative consequence of using DRGs for all psychiatric admissions is the failure of DRGs to recognize the distinction between chronic and acute psychiatric illness. The former should be funded on a per-diem basis, and the VA's DRG system does not recognize this. An alternate methodology with an accurate identification of costs should be developed and applied, as was done for non-psychiatric long-term patients.

Partly as a result of the use of these inappropriate resource allocation methodologies, VA psychiatric services have suffered an annual erosion of their resource base. This is a matter of grave concern. There is and has always been a substantial unmet demand for VA psychiatric care, especially among elderly patients. Moreover, outreach programs to homeless veterans have shown a large unmet need for care of serious mental health problems. Mental health care is less well insured in the United States than health care generally, which makes VA psychiatric care particularly vital. Erosion of psychiatric resources only serves to increase the unmet need for VA psychiatric care.

This erosion has not been limited to that resulting from the DRG-based RAM. Local hospital managers have the authority to shift dollars and staff internally to help meet care demands. They not infrequently do so, according a higher priority to high-tech, high-cost, and high-prestige acute surgical and medical care. This perspective is consistent with a bias common throughout the nation's health care system, where low-tech, low-visibility, low-prestige, and lower cost psychiatric services often suffer.

Aside from the anecdotal reports we have received concerning these local cost shifts, Table XIV shows that there have been significant reductions in direct staff (a loss of almost 2,100 FTEE or 10 percent) for psychiatric bed sections since FY 1983, while the episodes of treatment have increased by about ten percent. Dollar support has also eroded, with a loss of some $40 million in inpatient direct care dollars since 1984 according to recently reported VA data. To prevent further resource shifts away from psychiatric services, the VSO authors of this Independent Budget urge that Congress mandate a floor for resources allocated to VA psychiatric programs. The floor should be set at the level of the FY 1987 funding allocation to psychiatry, and include funding for both inpatient and outpatient programs. Each year, the floor should then increase to keep pace with payroll-related cost increases and inflation. This is not meant to imply that the FY 1987 funding level was appropriate or adequate, but that the erosion should certainly go no further. Adjustments should then be made to adequately fund a strong psychiatric care program.

AIDS: Provide an additional $50 million to help support the expensive and increasing workload. The impact of the AIDS epidemic on the VA health care system is already quite significant. All indications are that it will become more critical in the near future. Between 1981 and 1986, the VA cared for seven percent of the national total of 40,000 cases of AIDS. As of last December, the cumulative total of cases having been treated by the VA was 3,400. New admissions to VA care are now averaging 200 per month. The VA reports 1987 costs for treating AIDS patients vary from $18,000 to $24,000 per patient per year, with an additional $8,000 expense per patient per year for those on AZT therapy. Currently, the VA has 1,200 AIDS and AIDS-Related Complex (ARC) patients on AZT medication. These figures compare favorably to the private medical sector costs as reported by the Institute of Medicine (IOM), which are $50,000 to $150,000 per patient throughout the time span from diagnosis to death. Longevity figures vary. In a recent study of some 5,000 cases, 48 percent died within one year of diagnosis and 70 percent did not survive two years, although 15 percent survived five years.

There is a wide variation in predictions of future AIDS costs. The U.S. Public Health Service estimates that there will be a cumulative total of 323,000 cases or more in the United States by 1991. Of this number, 200,000 will have died and 14,000 AIDS patients will be occupying hospital beds at any given time. Based on these figures, and assuming the VA's current workload of about seven percent of the national total continues to hold, the VA is likely to be responsible in 1991 for over 8,000 AIDS patients. It is expected that treatment then will be essentially the same as today, and that a vaccine will not have been developed by then.

On this basis, and in light of the 200 new cases being treated each month, the VA's stated expectation of treating 1,900 AIDS patients during FY 1988 seems an underestimate. However, using that figure as a baseline, we feel that a conservative estimate of the VA FY 1989 AIDS caseload would be something over 3,000. (These figures do not include patients with AIDS-related complex, ARC). The VA Department of Medicine and Surgery has embarked upon realistic planning to meet the AIDS epidemic. Four VA centers for the specialized treatment of AIDS are in the process of being established, along with three new laboratories for AIDS research. A $7.1 million investment in AIDS research is planned for 1988.

We wish to underscore the need to provide additional funds to meet the high cost of the AIDS epidemic. Previous VA projections of workload have not included the AIDS epidemic; additional funds are neccesary to cover the patients it generates. The very substantial extra VA expense for the treatment of AIDS should not be covered by previously planned medical care funding; that funding is needed merely to meet the growing workload generated by the aging of the veteran population.

We therefore recommend that $50 million be added to the Medical Care appropriation for FY 1989 for treatment of veterans with AIDS and ARC. This funding would include the establishment of additional VA AIDS centers.

The Veterans Service Organization authors of this Independent Budget wish to commend Dr. J. Roy Rowland and the sponsors of H.R. 2881 for their initiative in proposing a Congressionally chartered National Commission on Acquired Immune Deficiency Syndrome to study and establish national policy regarding this pandemic disease.

Beneficiary Travel

Restore $30 million of currently authorized reimbursement pending Congressional consideration of legislative proposals. The FY 1988 Independent Budget (IB) challenged the VA's recently imposed restrictions on reimbursement of veterans for the cost of their travel to and from a VA health care facility. We recommended that much of this reimbursement be restored, and that the funds for it appear in the budget as a separate item not coupled with the cost of interfacility transfer of patients. Thereby, these funds would be protected against diversion to use for interfacility transfer. We note with satisfaction that legislative proposals have since been offered in both the House (H.R. 2327) and the Senate (S. 1234 and S. 1464) to mandate reimbursement of beneficiary travel and specify the circumstances in which reimbursement is to be paid.

We are submitting separately a legislative proposal based on these bills and containing our specific proposals on beneficiary travel reimbursement. In the main, it calls for reimbursement for all Category A patients and for patients receiving compensation and pension examinations. A deductible is recommended of $5.00 per round trip with a monthly cap on the deductible of $20.00.

Based upon previous experience, the cost of currently authorized beneficiary travel coverage is estimated to be $30 million. (This amount is, of course, exclusive of any costs for interfacility transfer of patients.)

VA Hospital Bed Levels

Restraint is recommended in any further reduction in VA bed levels pending full understanding of currently unsteady VA health care trends, the magnitude of unmet medical need of entitled veterans, and the ultimate opportunities for facility conversions to alternate modalities of care. During the past few years, major shifts in patterns of health care have occurred in both the VA system and the private medical sector. A major force behind these changes has been the DRG-driven incentive to shorten inpatient stays. Other causative factors, however, are also at work. Chart XI shows the striking decline over the last several years in the overall length of a VA inpatient hospital stay. Although the number of VA inpatient episodes of care had been increasing until FY 1987 (see Chart VIII), the net consequence for the VA has been a lower average daily hospital census and lower occupancy rates, as Chart XII shows.

Based on these developments, it is inviting to consider closing "excess" beds. In our considered opinion, this is the wrong time to do so. Utilization data based on current operating circumstances may well be misleading. 1986 was attended by considerable turmoil in the VA health care system and stabilization has yet to occur. The sudden emergence of a crisis shortage of hospital beds in New York City—for reasons not readily identified—dramatically demonstrates that in a period of turmoil, empty beds cannot be relied upon to remain empty.

In the VA health care system, the shortage of nurses and other health care professionals, denial of beneficiary travel reimbursement, dollar shortages from budget austerity, avoidance of expensive elective surgical procedures, and restrained access to outpatient care are all influences that generate empty beds in the face of needs and illnesses that would fill more beds if these influences were not operative.

There is another important factor to consider: the VA's major role in the National Disaster Medical System (NDMS). The NDMS is designed to provide emergency preparedness on a national scale. It is to handle casualties numbering tens of thousands when a cataclysmic domestic disaster (e.g., an earthquake) has saturated local and state resources. In the event of a conventional military conflict, with large numbers of casualties arriving back in the United States, the NDMS would be an essential on-line contingency backup resource for the Department of Defense.

The NDMS is an organized national network of voluntary, pre-committed federal and private sector hospital beds; a medical response component, including pre-organized, trained, and equipped Disaster Medical Assistant Teams (DMATS); and a transportation system for moving assistance into an affected area and for evacuating victims to an area where immediate, definitive care is available. The VA as a critical component of NDMS is committed to provide as many as 20,000 beds and supportive personnel on short notice.

Rather than permitting a reduction of authorized beds, remedial attention should be given to problems described above and selective conversion of hospital beds to nursing home care should be placed on a faster track. Most importantly, an expertly conducted survey to accurately identify and measure the unmet demand from entitled veterans for health care is needed before valid planning can be done.

Unmet Needs Survey

Identify fully the unmet medical care needs of entitled veterans. We are genuinely concerned about all Category A veterans whose need for medical care is for one reason or another not being met. These veterans fall into three categories: first, the veterans who need outpatient care but, under current rules, are only eligible for inpatient care; second, the group of homeless or otherwise deprived veterans who can only be identified and served through outreach programs; and, third, veterans with unmet medical need who are unaware of their VA entitlement or who, because of previous discouragement, no longer seek VA care.

An example of the first group is a severe diabetic or a hypertensive patient who has been stabilized, but requires continuous monitoring.

Glaring examples of the second group are being encountered in the recently created national program of community-based treatment for Homeless Chronically Mentally Ill (HCMI) veterans. Forty-three VA Medical Centers are now actively involved in this program, which consists of an outreach and care management component, medical and psychiatric evaluation, and contract care for psychiatric residential treatment. Over six thousand homeless veterans were contacted during the last six months of FY 1987 and over 20,000 are projected to be contacted in FY 1988, with 2,433 admissions expected.

The initial six thousand veterans seen by this program were found in soup kitchens, abandoned buildings, streets, and shelters. They have an exceptionally high prevalence of both psychiatric and medical illnesses, even for a homeless population. They are poor, socially isolated, and mostly unemployed. Of the initial six thousand contacts, 30 percent served in combat and 1.7 percent were ex-POW's. Of those who received a formal psychiatric assessment, 9.4 percent were diagnosed as having combat-related post-traumatic stress disorder.

It is conservatively estimated that veterans constitute half of all homeless Americans, and that there are hundreds of thousands of homeless veterans. These data

Chart XI
VA Hospital Length of Stay
FY 1982 - 1987

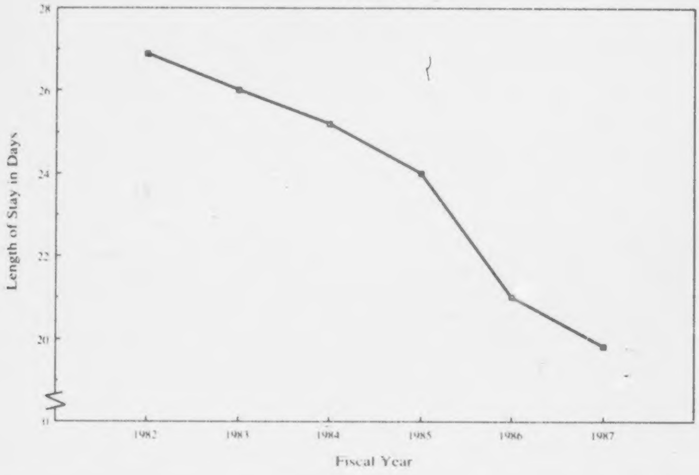
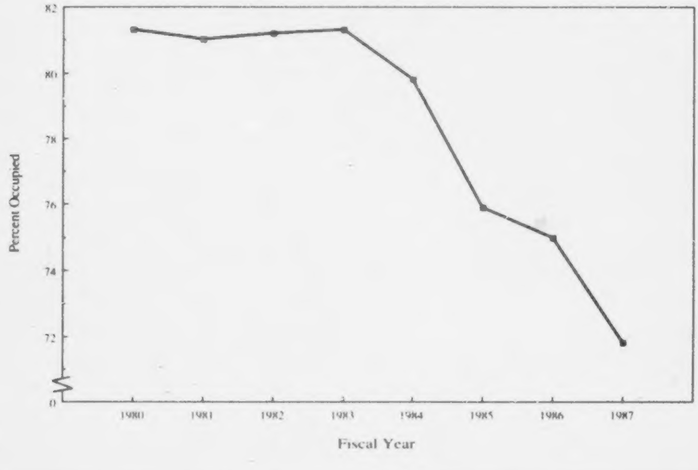


Chart XII
VA Hospital Occupancy Rates
FY 1980 - 1987



were extracted from the HCMI Program Report of October 1987. We present them to illustrate the critical need for medical and socio-economic assistance on the part of a veteran group that would not otherwise be identified in even the most intensive demographic survey, since surveys are based on people's residences or telephone numbers, and these veterans are homeless.

If the Means Test Report is properly modified, as suggested in our last year's Independent Budget and recently recommended by the VA Inspector General (IG), data on the first category of veterans with unmet need—those needing outpatient care but turned away because they are only eligible for inpatient care—should become available. It now appears that planned VA actions, modifying AMIS segments 320-323 will, if carried out, provide this information in FY 1989. The second veteran group with unmet need—the homeless—will, over a period of time, be identified if VA outreach programs for homeless veterans are given permanence and priority. Valid data on the third group with unmet need—those unaware of their entitlement or discouraged from using the VA—can be captured only by a well designed and carefully conducted survey.

We have reason to believe that there are large numbers of veterans in this third group, veterans who have abandoned or have been abandoned by the medical care system that was designed to care for them. Although there are (and have been) many sound surveys to acquire good data about veterans and their needs, none pursue the information we think to be essential. We reviewed the Survey of Veterans (SOV) III and find that there is not sufficient attention given to probing for information about health, health care, and veterans' health care needs. The proposed SOV III follow-on surveys by the VA concerning service-disabled veterans and medical care users do not focus on the full population of concern to the VSO's—they omit veterans outside the VA health care system who are not service-disabled. Other possible data collection mechanisms, such as over-sampling and in-depth questioning through the National Medical Expenditures Survey (conducted by the National Center for Health Services Research, DHHS), have not been fully exploited by the VA. We suspect that one reason survey information on unmet health care need is not available is that federal surveys must be cleared by OMB, and the pursuit of information on unmet need might show needs that would not support OMB's budget reduction goals.

We recommend that a survey be designed and administered to a national sample of veterans for the purpose of identifying their health status, their health care needs, the sources through which these needs are met, their unmet health care needs, and the potential the VA offers fpr meeting these unmet needs. The survey should be exempt from OMB clearance in order to avoid OMB censorship, and should be designed, carried out, and reported upon within two years. Survey reports would then provide an important basis for ascertaining the future direction and focus of the medical care programs of the Veterans Administration.

Decentralized Hospital Computer Program

Provide $22 million for FY 1989. There is a need for $22 million for 1989 as part of the full implementation of the Decentralized Hospital Computer Program (DHCP) initiative. Those parts of the DHCP initiative that support DVB should be included among the highest priority system components for speedy completion. The lack of integration of EDP systems of the VA's departments is a major cause of serious deficiencies in services rendered to veterans.

Postgraduate and Inservice Training

Double fund to $18 million in FY 1989. The elimination of the postgraduate and inservice training (P.I.T.) account by transfer to unspecified medical care funding was, in the VSOs' opinion, a serious mistake. In effect, the identity of $9 million for the continuing education of VA professional personnel was lost by this transfer.

Ten years ago, the P.I.T fund was $12 million. Budget cuts and inflation have since reduced its real purchasing power to a fraction of that amount. Meanwhile, the need for continuing education in an era of rapid advance in medical technology and therapeutics has never been greater. The health care professions have increasingly recognized this need and have increasingly mandated continuing education for their members, while the VA has been forced to reduce P.I.T. funding. Moreover, availability of such funds is increasingly important for recruiting and retaining health care professionals, as noted in the discussion of staffing shortages.

This Independent Budget recommends a total of $18 million dollars be appropriated for this very essential training. In addition, we recommend these funds be kept separately and be available only for their designated purpose, rather than being commingled with the totality of medical care funds. Total funding of $18 million requires the increase of $9 million shown in Table XI.

Education and Training

Add $11 million for traineeships in areas of critical staffing shortage. The VA's education and training programs are a major factor in maintaining high quality patient care and a major training component for the nation's health professionals. In conjunction with its affiliated health professions schools, the VA constitutes the nation's single largest resource for the training of health care professionals. In any given year, approximately 40 percent of all graduate physicians in training receive a major portion of their training in VA hospitals—along with 50 thousand students in other health professions—dentists, nurses, psychologists, technicians, administrators, etc. The great majority of the health care professionals trained in the VA go into the private sector rather than being retained by the VA to meet its needs.

We recommend an increase of 200 FTEE and $11 million for medical and dental residency positions, fellowships for physicians in rehabilitation, and various nursing and allied health traineeships. The medical residencies will be in fields of severe shortage such as anesthesiology, psychiatry, and rehabilitation medicine. In the short term, adding residents in these fields will provide assistance to current staff and also enhance recruitment and retention of staff by offering the attraction of working in an environment that includes an educational program. Over the longer term, staffing in these problem areas should improve further, for graduates of the VA training programs should be more rapidly recruited to serve in the VA than are other professionals in these fields.

We do not anticipate that the extra physician training positions would add to the national physician surplus that is widely predicted. Over 90 percent of VA residencies are affiliated with medical schools, and we expect training programs will merely shift training slots to the VA from other affiliated hospitals. Financial pressures on these affiliated, non-VA hospitals from Medicare and private payers make it unlikely that training programs would expand rather than provide the non-VA hospitals some relief from these pressures by shifting slots to VA hospitals.

Contract Hospital Payment Reform

Reduce costs by $20 million by payment at Medicare DRG rates. The VA will henceforth pay for inpatient care in non-VA hospitals on the basis of the Medicare Prospective Payment System (PPS). The essence of this system, like the VA's resource allocation methodology, is a fixed, per-use payment that is based on which diagnosis-related group (DRG) a patient falls into. The savings in cost of non-VA hospital care that will result primarily from this reform in payment methods are expected to total $20 million in FY 1989.

MEDICAL AND PROSTHETIC RESEARCH

The appropriation for Medical and Prosthetic Research supports the three categories of VA health research: medical research, rehabilitation research, and health services research.

Medical research is centered on problems of particular importance among veterans or VA patients, and most VA researchers are VA clinicians. Thus, the VA's medical research has a clinical orientation and a high relevance to VA patient needs. Rehabilitation research might be regarded as a specific example of this thrust of VA research to meet needs especially important to veterans. Rehabilitation research is directed at the needs of functionally impaired veterans; it attempts to bring engineering and computer technologies, among others, to bear in developing new devices and techniques for overcoming these veterans' impairments and for maximizing their functional abilities and independence. Health services research is directed at improving the effectiveness and efficiency of the VA health care delivery system.

Research plays an important role in the VA health care system. It leads to treatment advances for health problems that are specific to the veteran population or are particularly prevalent among VA patients. In addition, the VA's ability to coordinate clinical research on a broad range of patients at multiple sites is extremely valuable in evaluating new treatment approaches for U.S. health care in general. Finally, opportunities to carry out research bring to the VA top-flight physicians and other health care professionals who would otherwise be difficult to attract.

The story of VA research constitutes one of the proudest chapters in the history of the Veterans Administration. The value of contributions to medical knowledge by VA researchers far exceeds the cost of research, not only in terms of dollars but also in terms of lives saved or made easier. A short list of VA research achievements includes the antibiotic cure for tuberculosis; the palliative effectiveness of drug therapy for schizophrenia; the modern treatment for hypertension; the first cardiac pacemaker and the invention of the nuclear-powered pacemaker; the laser cane and the robotic limb; the discovery of cancer-causing viruses; the liver transplant; the technique of radioimmunoassay; and the basic theoretical concept that made possible the development of computerized tomography. Like VA education programs, the unique clinician/investigator-based VA research effort is a national resource. Among its current priorities are the problems and processes of aging.

THE CHALLENGE

Health care is a rapidly changing field and we note with concern the fact that only two percent of the VA's health care budget goes to research while, in high tech, rapidly changing industries, the percentage typically is much higher. We are concerned that the relatively low percentage of funds going to research will have a negative effect on the quality of VA care and the extent to which its practitioners remain up-to-date.

Economizing is particularly "penny-wise and pound foolish" in fields in which the VA's research focuses most strongly on veterans' special needs and on methods for improving the VA's health care system. Rehabilitation research and health services research most clearly fall into this category. Rehabilitation research that the VA forgoes out of economy is unlikely to be carried out elsewhere, and thus restrictive funding of rehabilitation research will work to the disadvantage of the relatively large number of veterans with disabilities, many of them with service connected disabilities. VA spending on health services research is about one-tenth of one percent of total VA health care spending. This seems to us a terribly meager amount for research directed at improving the effectiveness, efficiency, and organization of VA health care, especially when budgets are tight, making inefficiency, poor organization, etc. least tolerable.

We are also concerned about the damage generated by recent up-and-down fluctuations in the level of research support. Most research projects require multiple years for completion and are funded with commitments for three years or longer; high performing research teams need stability. Erratic funding thus impairs research to a greater extent than might be thought from a simple examination of the percentage level of fluctuations. This sensitivity to fluctuations is particularly severe in areas, such as rehabilitation research, in which the VA plays a large role. There is no large pool of researchers outside the VA from which the VA can draw at times of rapid expansion or that can absorb researchers at times of cut backs.

OUR POLICY

We realize this is a period of extreme budget stringency for the federal government, and in that budget climate feel that priority for expansion must go to hands-on health care, given the expanding needs for care as veterans age. For these reasons, we propose only maintaining current services—that is, keeping up the level of research activity that the VA carried on in FY 1987.

SPECIFIC RECOMMENDATIONS

Provide supplemental funds of $10.6 million in FY 1988 and an additional $5.7 million in FY 1989 to maintain current services. As Table XV shows, the enacted appropriation for VA health research for FY 1987 is $193 million, not including funds appropriated to the Department of Defense (DOD) research budget, but transferred to the VA research budget. As also shown in Table XV, this appropriation is far short of the current services level and an additional $10.6 million in supplemental appropriations for FY 1988 is needed to maintain current services—i.e., to provide the same level of research staffing and other resources as in FY 1987. With an appropriation of $203.6 million, the VA research staff can be maintained at approximately 4,300 FTEE, the same number as in FY 1987. Otherwise, cuts will be necessary; we cannot overstate the particularly destructive effect of up-and-down fluctuations in research funding.

To perform research at the same level of activity in FY 1989 will require $5.7 million more, or a total of $209.3 million. In other words, $209.3 million is the FY 1989 current services level. Of the $5.7 million increase between FY 1988 and FY 1989 in the current services level, approximately $3.5 million is required for payroll-related items, principally the pay raise effective January 1, 1989. The remaining $2.2 million is needed to cover estimated inflation for non-payroll items. This $209.3 current services level is the level of VA-funded research that, regretfully, we feel is the maximum appropriation we can recommend for FY 1989.

If the expected transfer of $10 million from DOD to VA research does not take place in FY 1989, it will be essential that this additional amount be appropriated to maintain current services, for similar amounts have been available from DOD in FY 1987 and FY 1988.

TABLE XV
MEDICAL AND PROSTHETIC RESEARCH
Components of Independent Budget
Recommended Appropriation
(dollars in thousands)

FY 1988	APPROPRIATION*	193,000
FY 1988	Supplemental Funds Pay Raise	1,900
	Federal Empl. Health Benefits	700
FY 1988	Add-on to Restore Current Services	8,000
FY 1988	Current Services Level*‡	203,600
FY 1989	Payroll-related Increases Federal Empl. Retirement Sys.	800
	Annualization of Pay Raise-1988	600
	Annualization of FEHB-1988	200
	Pay raise - 1989	1,900
	Inflation	2,200
FY 1989	Current Services Level*‡	209,300
FY 1989	RECOMMENDED APPROPRIATION*	209,300

*Obligation level would include an estimated $6,200 in reimbursements

‡Funds necessary to maintain services at the FY 1987 level

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

The Medical Administration and Miscellaneous Operating Expenses (MAMOE) appropriation supports the Washington, D.C. Central Office staff of the VA health care system as well as a health professions scholarship program for students in nursing and certain other health professions.

THE CHALLENGE

Personnel cuts in MAMOE have reduced DM&S's Central Office staffing by almost one-third relative to levels of four years ago. Last year, we expressed our concern at this large decrement and its detrimental effect upon the capability of Central Office to maintain efficiency in the operation of the VA health care system. We doubt that some 600 employees are adequate to staff the headquarters of an organization that spends over $10 billion a year, has some 200,000 employees, delivers a complex and vital service at over 200 major delivery sites—and also must devote a substantial fraction of its headquarters staff to responding to Congressional inquiries and Executive Branch direction. The need for adequate management staff is particularly acute in the current era of tight budgets when waste and inefficiency due to inadequate management supervision are especially important to avoid.

OUR POLICY

Nonetheless, DM&S's Central Office has managed to function at the current staff level, and given the economies in federal government spending necessary to meet current deficit reduction targets—economies in which the VA must share—we reluctantly recommend continuation of this current staffing level.

We applaud the restoration of funding for the health professions scholarship program that was achieved in the FY 1988 appropriation, and look forward to continuation of this program as a significant asset in dealing with staffing shortage problems. These are widespread and clearly long-term problems.

SPECIFIC RECOMMENDATIONS

Provide supplemental funds of $0.5 million in FY 1988 and an additional $1.4 million in FY 1989 to maintain current services. As Table XVI shows, the enacted appropriation for Medical Administration and Miscellaneous Operating Expenses (MAMOE) for FY 1988 is $47 million. However, to maintain the FY 1988 staffing at the FY 1987 level will require supplemental appropriations of approximately $0.5 million, mostly to cover the federal employees' pay increase that went into effect on January 1, 1988. Thus, the FY 1988 current services level is $47.5 million. Given the reduced staff level in the Central Office, it is particularly important to fully fund the $0.5 million increase that is needed to maintain services at the FY 1987 level.

For FY 1989, the current services level is $48.9 million (see Table XVI). Additions of $0.7 million over the FY 1988 level are required in FY 1989 for payroll-related items, primarily for the pay increase effective January 1, 1989, and $0.7 million is required to cover inflation in non-personnel costs. Again, fully funding these cost increases is particularly urgent to forestall cuts in an already depleted Central Office staff. In total, then, we recommend funding the current services level of $48.9 million for MAMOE in FY 1989.

TABLE XVI
MEDICAL ADMINISTRATION AND
MISCELLANEOUS OPERATING EXPENSES
Components of Independent Budget
Recommended Appropriation
(dollars in thousands)

FY 1988	APPROPRIATION	47,000
FY 1988	Supplemental Funds	
	Pay Raise	400
	Federal Employee Health Benefits	100
FY 1988	CURRENT SERVICES LEVEL‡	47,500
FY 1989	Payroll-related Increases	
	Federal Employees Retirement System	100
	Annualization of Pay Raise - 1988	100
	Annualization of FEHB - 1988	40
	Pay raise - 1989	500
	Inflation	700
FY 1989	CURRENT SERVICES LEVEL‡	48,940
FY 1989	IB RECOMMENDED APPROPRIATION	48,940

‡Funds necessary to maintain services at the FY 1987 level

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

This appropriation provides grants to assist states in acquiring or constructing state homes that furnish domiciliary and nursing home care to veterans. It also provides grants that assist in the expansion, remodeling, or alteration of existing facilities of this type, including hospital facilities of state homes. Grants may not exceed 65 percent of the total cost of a project.

As described in the discussion of our extended care initiative (in the section on the Medical Care appropriation, above), expansion of state homes is one important potential source of the rapidly increasing nursing home capacity the VA needs. However, the willingness of states to expand state homes or build new ones is limited, since states must pay most of the cost of caring for veterans in these homes. In recent years, states have been willing to undertake less expansion of this capacity than the VA would have liked.

For FY 1989, we recommend an appropriation of $42.4 million for these grants, which is the current services level—that is, the same as the appropriation for FY 1987. We expect this will fund a substantial expansion in the state home program. Based on preliminary information from states, there should be no problem in the full $42.4 million being put to use in this program in FY 1989.

GRANTS TO THE REPUBLIC OF THE PHILIPPINES

These grants assist in the replacement and upgrading of equipment at the Veterans Memorial Medical Center in the Philippines and in rehabilitating the physical plant and facilities of the Center. The Center provides care to U.S. veterans. It is now over 30 years old, so replacement and rehabilitation are major needs. We recommend the usual annual grant of $500,000.

CONSTRUCTION PROGRAMS

CONSTRUCTION PROGRAMS SUMMARY

Two appropriations fund most of the VA's construction activities: Major Construction provides funds for projects with costs over $2 million; Minor Construction pays for smaller projects and also for the staff involved in planning and supervising construction activities. In addition, a small third appropriation funds the Parking Garage Revolving Fund. The vast bulk of funds in the construction appropriations go for health care projects.

SPECIFIC RECOMMENDATIONS

Our primary recommendations for construction programs follow.

- A high appropriation level, $169 million, for minor construction because of the importance of updating and repairing VA facilities, most of which are far from new.

- A low appropriation level of $368 million for major construction, because the VA does not have an adequate system for basing construction projects on its needs.

- Prompt development of an adequate system for basing construction projects on VA programmatic needs.

- New policies for the National Cemetery System of (1) a national cemetery with available burial space in every state and (2) such cemeteries within reasonable distance of major veteran population centers; $3 million to fund acquisition of land for cemeteries to be added under these criteria.

- $40 million for the advance planning and design funds.

- $30 million for four new 120-bed VA nursing homes each year. $20 million a year earmarked for conversion of VA hospital beds to nursing home beds.

Table XVII, "Construction Programs" summarizes our recommendations for construction appropriations.

PRINCIPLES AND GUIDELINES

Our recommendations for construction programs are based on a carefully developed set of 12 principles and guidelines, which follow:

1. Construction funding should ensure the integrity of the VA physical plant for future generations of veterans. There must be no covert downsizing achieved by allowing the physical plant to deteriorate.

2. Veterans Administration facilities must be available where veterans need them. This may require major expansions or new facilities in areas of rapid population growth. Conversely, contraction of facilities in areas of declining need is appropriate.

3. Highest priority in construction projects should be given to those necessary to meet modern safety standards. These include protection against earthquakes, removal of asbestos hazards, and correction of fire safety deficiencies.

4. VA facilities must be brought up to current privacy standards.

5. The VA physical plant must be adequate to meet the needs of a rapidly aging veteran population. Specifically, the VA health care system must have enough treatment capacity to meet these needs and must adapt existing space and its configuration of services to the changing pattern of care needed as veterans age. This implies large-scale conversion of unused hospital beds to nursing home use and to other alternative uses to support the medical care mission.

6. Selection of construction projects should be based on an adequate system-wide process for setting priorities. The process for establishing priorities should consider the full range of Veterans Administration needs, not merely those projects that have moved a substantial way through the current planning process.

7. The VA should improve the cost efficiency of its design criteria and construction process, recognizing that excess dollars spent on a construction project are dollars not available for other purposes.

8. Maintenance and, where needed, new construction funding should be carried out as necessary to permit the Veterans Administration to effectively take advantage of current and future progress in medical technology.

9. As one basis for construction planning, the VA must promptly develop an inventory of current space, and of functional and technical deficiencies, including information on the severity of deficiencies. The absence of this information is an omission of staggering proportions.

10. Sufficient funds must be made available in the advance planning and design funds to prevent delays in the construction needed to carry out VA goals.

11. The VA should use techniques that will speed up the construction process, reducing the time from the initial planning of projects to their completion.

12. There should be a national cemetery with available grave space in every state and national cemeteries with available grave space located within reasonable distance of major population centers. In meeting these goals, priority should be given to the largest population concentrations in the states with no open cemetery.

TABLE XVII
CONSTRUCTION PROGRAMS APPROPRIATIONS
(dollars in thousands)

CONSTRUCTION CATEGORY	1987 Appropriation	1988 Appropriation	1989 IB Recommended Appropriation
MAJOR CONSTRUCTION			
Medical			295,000
Advance Planning And Design Fund			40,000
Nursing Homes			30,000
Cemeteries			3,000
TOTAL MAJOR	382,700	403,000	368,000
MINOR CONSTRUCTION			
Medical			100,000
General			[80000]
Conversions			[20000]
Regional Offices			5,000
National Cemetery Program			10,000
Staff Offices and Admin.			54,000
TOTAL MINOR	80,000	116,000	169,000
PARKING GARAGE REVOLVING FUND	26,000	3,900	4,000
TOTAL CONSTRUCTION APPROPRIATION	488,700	522,900	541,000

CONSTRUCTION

THE CHALLENGE

As in other VA programs, need forms the basis for determining the appropriate level of funding for construction. However, in this, our first attempt to develop a VA construction budget, we quickly found that the VA itself does not have the information required to formulate a needs-based construction budget. Such a budget for health care projects would require as its basis an inventory of construction needs composed of:

- Maintenance and repair needs of existing structures, systems (electricity, heating, plumbing, etc.), and equipment used by medical centers;
- Shortfalls in existing space, systems, and equipment needed for the current activities of medical centers; and
- Shortfalls in the space, systems, and equipment that will be required by future medical center operations, as these future operations are envisaged in approved MEDIPP plans.

The VA does not have such an inventory of construction needs, and the focus of the recently completed Capital Facilities Study is too narrow to serve as an inventory in this sense. As a consequence, the VA's current construction priority-setting is limited to choosing among projects submitted by medical centers (in the Five Year Facility Plans). These projects may or may not address the needs that the VA as a whole sees as having highest priority, and there is no way of knowing what the full scope of need looks like. To put it bluntly, the VA does little more than pick its projects from 172 uncoordinated "laundry lists." The current prioritization methodology simply places requested projects in priority order and does not address true need.

The absence of a sound basis for establishing construction priorities is but one of the major deficiencies in the VA construction process identified by careful studies that the VA itself commissioned. Other major deficiencies include:

- Excessive time required for projects—typically 10 years from conception to completion for major construction;
- Costs that are sometimes excessive; and
- Inability to deal systematically with problems in the construction process.

Appendix B, "Problems in the VA's Construction Process," describes the major findings of the studies and provides more details of these challenges.

OUR STRATEGY

Our most urgent construction concern, then, is for the VA to develop a construction process that works well, specifically one that:

- Completes projects more rapidly. Five years from conception to completion of major projects is a good, if challenging, target;
- Chooses projects based on need and on a sound system for setting priorities;
- Provides projects that meet medical centers' needs well;
- Is economical; and
- Catches problems quickly, before they become severe, through an effective system of standards and indicators for monitoring on-going performance along important dimensions such as quality, timeliness, and cost.

An immediate task for the agency in meeting these goals is to develop a sound Facility Development Planning Process (FDPP). The successful completion of the pilot test program for the FDPP, involving four VA medical centers, is a prerequisite to implementing this new process system-wide. Upon successful completion of the pilot test, the Congress should then be willing to release the $10 million it has appropriated for Facility Development Plans, but frozen because the VA has not shown the ability to carry out appropriately this first step in fixing its construction process. Once a proper Facility Development Planning Process has been established, the foundations necessary for developing a needs-based construction budget will be in place.

Because neither we nor the VA knows what construction needs are and what construction priorities should be, we are recommending very low total construction appropriations for FY 1989, appropriations totalling $541 million, as shown in Table XVII. This is close to $225 million, or almost 30 percent, below the record construction obligations of $766 million achieved in FY 1987, and is only $18 million above the very tight appropriation total enacted for FY 1988. Within this constrained total, we recommend a relatively large amount for minor construction in order to provide for the updating and repairing of VA facilities, most of which are now quite old.

We believe the true total of construction needs may be a good deal higher than the total appropriation of $541 million we are recommending. For example, the VA is contracting for only two replacement hospitals or top-to-bottom renovations of hospitals each year, which means it is on an absurdly long 86-year replacement cycle for its 172 hospitals. However, both the current federal budget deficit and the VA's lack of the basic information it needs for construction planning support our endorsement of the conservative appropriations shown in Table XVII.

Our construction budget also reflects the re-establishment of a reasonable strategy for locating cemeteries in the National Cemetery System. At OMB's insistence, the VA has for years maintained that the system need have no more than one national cemetery with available burial space in each of the 10 federal regions. This means extremely long travel distances for widows and children of veterans honored by burial in a national cemetery. Realistically, it deprives many veterans of an option of burial in a national cemetery.

The VSO authors of this budget are unanimous in agreeing that a true National Cemetery System that offers veterans what it appears to promise must meet two criteria:

1. It must have a national cemetery with available grave space in every state. (Eight states do not now have open national cemeteries.)

2. There must be a national cemetery with available grave space within reasonable distance of the nation's major veteran population centers.

This budget starts the process of making the National Cemetery System meet these two criteria.

SPECIFIC RECOMMENDATIONS

Our specific recommendations for construction programs are, as in other program areas, based on our strategy for meeting the challenges in this program area.

Major Construction

We recommend $368 million be appropriated for major construction in FY 1989, $35 million less than in FY 1988, and almost $220 million less than was obligated in FY 1987. We recommend this reduction in part because the VA lacks the information and processes to evaluate construction needs and in part because of general federal budget constraints.

Within the $368 million total, we recommend **$40 million for the advance planning fund and design fund** as shown in Table XVII. These funds permit projects to move continuously through the planning and design stages of the construction process rather than suffering lengthy interruptions while waiting for appropriations. As such, they deal with one of the major problems that has made VA projects take overly long to complete. The $40 million recommended for these funds substantially exceeds the amount allocated to them in past years. In funding them generously, we are seeking to accelerate the construction process. More importantly, we are ensuring a large dollar volume of projects "in the pipeline." Under-funding in this area leads to a choking off of projects by constricting the front-end planning and design stages. Our strategy of generous funding will permit a rapid expansion of the overall volume of major construction projects once VA priority-setting improves and the deficit declines.

We have specifically designated **$30 million for construction of new VA nursing homes.** This amount will fund four nursing homes with 120 beds each. The aging of the veteran population requires this rate of addition of new VA nursing homes each year throughout the 1990s. (For a discussion of nursing home needs and our strategy for meeting them, see the chapter on the Medical Care appropriation, above.)

Finally, our recommendations for the major construction appropriation include **$3 million for the acquisition of land for a new national cemetery** in a state that currently has none. We recommend the addition of two new national cemeteries with available grave space each year until the National Cemetery System meets our two goals. We believe that one new cemetery each year can be obtained by donation from a state, and have budgeted for purchase of land for a second.

The remaining $295 million of the major construction appropriation should be devoted to other medical construction projects.

Minor Construction

We recommend $169 million for FY 1989. The minor construction appropriation funds smaller projects, mostly ones devoted to keeping VA facilities in repair and up-to-date. As shown in Table XVII, our recommendation of $169 million for this appropriation for FY 1989 is an increase of $53 million from the FY 1988 level. We recommend this increase because of the importance of updating and repairing VA facilities. The largest number of VA facilities date from the 1950s, which means they are at an age when needs for updating and for repair and replacement are high. Moreover, the recommended $169 million for FY 1989 is actually slightly below the obligation level achieved in FY 1987.

Most of the total minor construction appropriation — **$100 million** to be specific—should be spent on **medical construction.** Of these medical funds, we recommend that **$20 million be set aside for conversion of medical center space to nursing home use,** and be available only for this purpose. Our analysis of nursing home needs and how to meet them (see the chapter on the Medical Care appropriation) shows the need to convert approximately 1,000 VA hospital beds to nursing home use every year for the next several years. VA medical centers have been resistant to actually undertaking any conversions—including those that DM&S's own planning calls for. Setting aside $20 million a year for conversions will put an end to the claim that a lack of construction funds prevents conversion.

Modest amounts of the minor construction appropriation pay for construction projects in the VA's **regional offices** and its existing **national cemeteries.** Based on recent years' spending patterns, we estimate that **$5 million and $10 million, respectively,** are appropriate for these purposes. Finally, we recommend that **$54 million** of minor construction funds be spent **for the VA staff that oversees the construction process.** This consists primarily of the Office of Facilities, and we recommend continuation of the current staffing level.

Parking Garage Revolving Fund

We recommend $4 million for FY 1989. The Parking Garage Revolving Fund is a recently established appropriation. When the fund is fully on its feet, revenues from parking garages it has financed will pay for needed new parking facility projects, and no appropriations to the fund will be required. Currently, however, the fund is in a start-up mode and requires an appropriation because most projects it has financed are still under construction and not yet producing revenues. We recommend an appropriation of $4 million in FY 1989, the same as in FY 1988.

APPENDICES

APPENDIX A

MEASURING THE NEED FOR COMPENSATION, PENSION, AND EDUCATION (CP&E) STAFF IN THE DEPARTMENT OF VETERANS BENEFITS

Workload statistics compiled by CP&E are based primarily on end products (EPs) completed. There are 28 categories of end products; each category is reported separately. As a consequence, there is great potential for significant variations in workload mix. Since FY 1978, there has been a considerable change in the overall CP&E workload as reflected by total Compensation and Pension end products and total Education end products.

The following table depicts this change and the change in the number of overall CP&E positions.

TABLE A1—CP&E END PRODUCTS AND STAFFING

FISCAL YEAR	TOTAL C&P EPs	TOTAL EDUCATION EPs	TOTAL CP&E EPs	CP&E POSITIONS
FY 1978	3,619,540	3,580,046	7,199,586	5,746
FY 1979	4,790,727*	2,981,710	7,772,437	5,637
FY 1980	4,009,395	2,771,022	6,780,417	5,002
FY 1981	3,902,106	2,676,252	6,578,358	4,727
FY 1982	4,052,901	2,281,192	6,334,093	4,488
FY 1983	3,623,869	2,153,308	5,777,177	4,183
FY 1984	3,524,003	2,011,947	5,535,950	3,912
FY 1985	3,467,820	1,523,532	4,991,352	3,764
FY 1986	3,823,737	1,323,445	5,147,182	3,583

*FY 1979 is atypical in that there were 1,008,166 more income election *(150)* actions than in FY 1978 (1,531,467 vs. 523,301) due to legislation.

The table shows that between FY 1978 and 1986, total end products decreased 28.5 percent from 7,199,586 to 5,147,182 whereas there was a 37.6 percent decrease in positions. The table shows, however, that the workload reduction as expressed in total end products was entirely in the education area, a decrease of 63 percent or 2,256,601 EPs. During the same period, there was actually a slight increase in the overall C&P workload from 3,619,540 to 3,823,737.

The gross numbers, however, do not tell the entire story. The decline in the education workload does not have a directly proportionate effect on the number of positions/FTEEs needed to accomplish the work. This is because the typical end product in the education workload does not take as long to complete or require the effort as do the typical end products in the C&P workload. In this regard, DVB has developed a complex methodology for determining how many particular end products (in each category) should be completed by an employee in a year. The measurement used is called standard base weights. The base weights

TABLE A2—CP&E WEIGHTED WORKLOAD
FISCAL YEAR 1986

C&P

EP	BASE WEIGHT	X	END PRODUCTS	=	WEIGHTED WORKLOAD
110	1.74		90,887		158,144
180	1.53		53,671		82,117
140	1.47		28,575		42,005
190	0.99		66,192		65,530
160	0.79		468,406		370,041
150	0.77		304,656		234,585
120	1.58		457,073		722,175
130	0.81		431,574		349,575
050	0.32		662,465		211,989
310	0.72		94,345		67,928
210	0.80		50,921		40,737
155	0.77		608,739		468,729
170	1.90		79,211		150,501
290	0.71		174,642		123,996
500	0.97		53,220		51,623
680	1.18		17,925		21,151
690	0.46		71,576		32,925
215	0.57		55,757		31,781
295	0.81		53,902		43,661
TOTAL			3,823,737		3,269,193

EDUCATION

EP	BASE WEIGHT	X	END PRODUCTS	=	WEIGHTED WORKLOAD
200	0.75		129,214		96,910
210	0.50		1,015,983		507,991
220	0.72		87,208		62,790
230	0.61		56,436		34,426
240	0.71		8,099		5,750
250	1.37		4,542		6,223
260	1.03		295		304
270	1.75		2,034		3,559
280	0.70		19,634		13,744
TOTAL			1,323,445		731,697

reflect the number of employees needed to complete 1,000 end products, by particular categories, in a year. Thus, for example, the standard base weight for an original compensation claim is 1.74 and for an original education claim is 0.75. This means that it would take 1.74 employees to complete 1,000 original compensation claims in a year, but only .75 employee to complete 1,000 original education claims in a year. This is an extremely useful measurement tool. It permits an accurate assessment of the true percentage of C&P and Education activities in the overall CP&E workload and it takes into account the changing dynamics of the overall workload in terms of the resources necessary to accomplish the work in a timely and efficient manner. Moreover, the standard base weights incorporate productivity gains that have been achieved in the past.

Obviously, a declining (or increasing) education workload would not have the same impact as a declining C&P workload. To illustrate this, we took actual FY 1986 end products and applied standard base weights to them:

The average standard base weight for C&P end products was 0.855 (3,269,193 divided by 3,823,737) and for education end products it was 0.553 (731,697 divided by 1,323,445). Thus, although education end products represented 25.7 percent of the CP&E total (1,323,445 divided by 5,147,182), on a weighted basis, they represented only 18.3 percent of the total.

This relative disparity was no doubt greater in the past when the original compensation and pension workload (with its higher base weights) was greater. In FY 1978, for example, there were 131,225 original compensation claims and 97,331 original pension claims, whereas in FY 1986, the corresponding totals were 90,837 and 53,671. The average standard base weight for all C&P end products would therefore have been greater than now. Thus, although the overall CP&E workload declined by 28.5 percent between FY 1978 and FY 1986, there would not have been a corresponding lessening of the need for FTEEs to complete the overall workload at the same or similar level of service. Certainly a significant reduction in FTEEs was justified because of the decline in the education workload and the changing case mix within the C&P workload; however, because of the factors cited above, the VSOs believe it is clear that a 28.5 percent reduction was excessive, much less the 37.6 percent reduction that actually occurred.

To illustrate, using the FY 1986 average standard base weights (which fully incorporated productivity gains) the FY 1978 end products, the volume of work would have been accomplished by 5,075 employees.[1] Moreover, the major difference between FY 1978 and FY 1986 workloads is that there were 2,256,601 fewer education end products. Applying the current standard base weight of 0.553 to those cases results in a weighted workload of 1,247,900 or 1,248 employees that would have been necessary to complete the work. This means that the decline in the volume of the education workload would indicate a need for 1,248 fewer positions compared with FY 1978, using current measurement techniques. However, although there were 85,265 fewer original compensation and pension claims in FY 1986 than FY 1978, this is offset by the fact that in FY 1986, there were 204,197 more C&P end products than in FY 1978. Again, applying the current base weight of 0.855 to the increased number of C&P cases results in a weighted workload of 174,588 or 175 more employees needed to complete the volume of work. This means that the decline in the overall volume of work would justify 1,073 fewer positions (1,248 - 175) compared with FY 1978, using current measurement techniques throughout the analytical process. Based on the volume of work, CP&E positions in FY 1986 would have been 4,002 (5,075 - 1,073) instead of the actual 3,583, a difference of 419. Thus, by the most empirical method available, between FY 1978 and FY 1986, a CP&E staffing reduction of 18.7 percent would have been appropriated based on the volume of work (1,073 divided by 5,746), rather than the actual reduction of 37.6 percent.

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[1] FY 1978 C&P EPs were 3,619,540 and Education EPs were 3,580,046. 3,619,540 times .855 equals 3,094,707 or 3,095 employees completing 1,000 cases each; 3,580,046 times .553 equals 1,979,765 or 1,980 employees.

The foregoing analysis, however, accounts only for volume; it does not address timeliness. The timeliness factor is more difficult to quantify but it is at least as important as the number of end products produced. The current level of productivity is not sufficient to provide the same level of timely service as in 1978. It must therefore be assumed that even applying current levels of productivity to FY 1978, 5,075 employees would not have been an adequate number to provide timely service. How many employees would have been sufficient to provide timely service at current levels of productivity is, of course, speculative. The VSOs believe that one-third less of the reduction would have maintained timeliness, given current productivity standards. Thus, instead of 671 fewer employees (5,746 - 5,075), 443 (671 X .66) fewer could have accomplished the FY 1978 workload in a satisfactorily timely manner. Incorporating this timeliness factor into the analysis, the new baseline measure for adequate FTEEs becomes 5,303 employees in FY 1978. Therefore, FY 1986 FTEEs should have been 4,230 (5,303 - 1,073) instead of the actual 3,583, or 647 more employees than CP&E actually had.

The Independent Budget Proposal for FY 1989 is that budget authority be provided for 3,837 CP&E positions or 424 more positions. This is based on VSO's analysis that in FY 1986, CP&E should have had 4,230 positions. The workload estimates provided by CP&E indicate an anticipated workload of 3,303,139 C&P actions and 1,380,179 education actions. Applying the actual 1986 standard base weights of 0.855 and 0.553 to these respective actions, 445 fewer employees would process the C&P workload and 52 more employees would be needed to process the education workload for a net decrease of 393.[2] Subtracting this from the number of 1986 positions that would have been adequate to provide minimally satisfactory service, the FY 1989 staffing level for CP&E would be 3,837. (This does not include FTEEs resulting from overtime or cumulative part-time positions.)

The most pressing need for additional staff is in the authorization components and the VSO would expect the bulk of the new positions to be allocated there. Additional cost, then, for FY 1989 would be $10,233,000 for adjudication staff. This is, indeed, a modest cost for needed improvements in the timeliness and quality of service to veterans, especially when budget outlays for total benefits paid to veterans is decreasing.

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[2] *520,598 times .855 equals 445,111 or 445 fewer employees; 93,266 times .533 equals 51,576 or 52 more employees.*

APPENDIX B

PROBLEMS IN THE VA'S CONSTRUCTION PROCESS

In developing this first Independent Budget for the VA construction program, we started from the VA's current construction program practices. The major studies the VA commissioned to examine its current construction process showed multiple, serious problems. As documented primarily in the "Comprehensive Study of the VA's Organization and Procedures for constructing Health Care Facilities" (completed for the VA by Booz, Allen & Hamilton and RTKL Associates in April 1985), these problems include:

- Excessive time is required to complete construction projects;

- The users of the construction projects—the individual VA medical centers—find the completed projects don't meet their needs well;

- The choice of projects is not based on a sound system for setting priorities, and there are other inefficiencies as well; and

- The VA only deals with problems in the construction process when they become glaringly obvious in particular projects. Even then, it does not make the systematic changes to the process necessary to prevent future recurrences of the problems.

EXCESSIVE TIME

The Booz, Allen/RTKL study found that the VA routinely exceeded its scheduled time for projects by 25-50 percent, and that its schedules were somewhat longer than those of other organizations carrying out similar construction. On average, the VA was taking over 10 years from initial project development to completed construction. The study attributed this slow pace to several problems. Two notable problems were that essential information needed to begin project design was difficult to obtain and there was a lack of accountability for timely progress in the planning stage of construction projects.

The excessive time required for VA construction makes it less likely that the needs identified at the beginning of a project will still be accurate reflections of medical center needs when the project is completed. This problem often leads to major project changes during design or construction phases, which cause still further delays.

USER DISSATISFACTION

A second major problem was dissatisfaction among VA medical centers with completed construction projects. According to the Booz, Allen/RTKL study, two factors appeared to cause this problem.

First, criteria for the amount and kind of space needed for various activities in VA medical centers were not sound. As a result, the users of the space often found it did not met their needs. Problems with the criteria include:

- Information needed for use of the criteria (principally staffing information) was often unreliable and difficult to obtain;

- Criteria in many cases appeared to be obsolete and based on assumptions that did not reflect the way health care and support services are actually provided; and

- Washington staff often insisted on applying the criteria inflexibly, with little respect for the reality of how services actually are delivered at the VA's medical centers.

Collectively, these problems underscored the need for changes in the way criteria are developed and maintained.

Second, VA medical center staff saw Central Office as unresponsive to their input during project design, and this resulted in time-consuming conflicts.

It seems desirable to develop procedures that more adequately accommodate users. However, some conflict between individual medical centers and Central Office may be inevitable: Each medical center focuses primarily on its own needs while Central Office is concerned with how to use a limited construction budget most effectively in meeting what it views as the highest priority needs of 172 medical centers. Also, it appears that considerable improvement in user satisfaction has occurred in response to changes put into effect since the Booz, Allen/RTKL report was completed.

UNSOUND PRIORITY SETTING AND INEFFICIENCIES

The Booz Allen/RTKL study found that neither individual VA medical centers nor the VA's Central Office had an inventory of construction needs. An inventory, it stated, should include three categories of information:

1. Maintenance and repair needs of existing structures, systems (electricity, heating, plumbing, etc.), and equipment used by medical centers;

2. Shortfalls in existing space, systems, and equipment needed for the current activities of medical centers; and

3. Shortfalls in the space, systems, and equipment that will be required by future medical center operations, as these future operations are envisaged in approved MEDIPP plans.

Without such an inventory, priority-setting is limited to a choice among projects that happen to be on lists submitted by medical centers (the Five-Year Facility Plans). These projects may or may not address the needs that the VA as a whole sees as having highest priority. The focus of the recently completed Capital Facilities Study is too narrow to serve as an inventory in the sense described above.

At individual medical centers, the report also found that, "poor coordination between current projects and future construction needs leads to design solutions that close off future options for development. In some cases, recent construction has even had to be replaced to meet new construction needs."

FAILURE TO ADDRESS PERFORMANCE PROBLEMS

"Problems in the VA construction process often reach major proportions before they are identified by top management and effective corrective actions are taken," according to the Booz, Allen/RTKL Study. "In many cases, even when significant problems exist, they come to the attention of top management only after they have been identified by outside organizations (e.g., OMB, GAO, Congress)."

"A lack of standards and indicators for measuring...." performance in the construction process appears to be the primary problem. "Because of the lack of standards, there is no information to evaluate...aspects of performance...." such as quality, timeliness, or cost, and VA top management "is forced to review detailed project-level information to monitor overall...performance" rather than having indicators it can track.

The report also found "a general perception in the VA that each construction project is unique and that the VA's health care facility construction process is completely different from...." health care facility construction outside the VA. As a result, indicators that are available and appropriate—such as cost per gross square foot for various types of construction—are not used. "The result is poor performance...." in important aspects of the construction process such as timeliness, cost, and quality.

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Mortgage Bankers Association of America

SUPPLEMENTAL STATEMENT

of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

Hearings on

The Fiscal Year 1989 Veterans Administration Budget
and S 2049, the "Veterans' Home Loan Program Improvements Act of 1988"

March 4, 1988

The Mortgage Bankers Association of America* is submitting this statement on "credit reform" to supplement its March 4, 1988, testimony on the Veterans Administration (VA) FY 1989 budget before the Veterans' Affairs Committee of the United States Senate.

The FY 1989 budget indicates that the Administration is once again submitting a legislative proposal that will attempt to identify the "grant equivalent subsidy" of Federal credit (direct loan, loan guaranty, and insurance) programs. Legislation proposing changes in budgeting for Federal credit programs, the "Federal Credit Reform Act of 1987" (S 745, HR 1754, hereinafter referred to as the "credit legislation") was sent to the Congress last March. That legislation, which MBA presumes will be substantially similar to the legislation to be transmitted this year, proposed dramatic new Federal credit program restrictions.

The alleged purpose of this legislation was to consolidate management of all Federal credit programs within the Treasury Department and to impose budgetary requirements and controls that would limit the role of Federal credit programs. The bill transmitted last year would cover all direct loan and loan guaranty and insurance programs of Federal agencies and of entities partially or wholly owned by the government. Thus, it covered the VA home loan guaranty program, and, it appears from the budget submission, the VA program would also be covered by the revised legislation.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

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- Real Estate Investment Trusts

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A disturbing objective of the proposal was quantification of the claimed "implicit subsidy" for Federal direct loan, guaranty, and insurance programs. As described below, the "grant equivalent subsidy" under even the revised credit legislation would result in large requests for budget authority and appropriations, which must be approved by Congress before any loans could be made, insured, or guaranteed. MBA believes these budget requirements would place pressure on Congress eventually to decrease credit program activity or increase or establish fees to offset those appropriation requirements.

MBA does not question that there is value in a Federal credit program in facilitating the flow of funds to particular borrowers. One component of that value is the market efficiency that results from standardization, homogeneity and volume, and is particularly applicable to mortgage credit programs. The second component of that value is the degree of Federal backing, (e.g., full or partial guarantee) and its effect on lenders and the secondary market. The third component of that value is the financial subsidy which exists to the extent that fees do not completely cover program defaults and administrative costs. The VA home loan guaranty program, to the extent that it is not fully self-supporting, is subsidized. However, Congress has made the determination that that subsidy is in the interest of national policy, and to date has refrained from increasing fees to take away the value of this Federal subsidy. As proposed, the Administration credit proposal would tax all three components of that value.

The Administration's FY 1989 budget actually requests appropriations for those "grant equivalent subsidies" and indicates that revised credit legislation will be transmitted shortly.* As noted in our March 4, 1988, statement to the Committee, the Administration requests an additional $1.3 billion in budget authority in FY 1989 alone for the VA loan guaranty revolving fund to accommodate the credit proposal. This additional credit requirement triples the request of $658 million that would be required under current law.

MBA believes that identification of these "grant equivalent subsidies" falsely misrepresents the actual dollar costs of these programs and is a theoretical construct which places Federal credit programs on a basis inconsistent with other Federal programs. In no other instance does the Federal budget reflect the economic "displacement" effect of a Federal program, nor does MBA believe it is appropriate to reflect this component. Consequently, budgeting for the estimated economic impact of credit programs, while not doing it for grant or other regular spending programs, penalizes these programs and invites unfair comparisons.

Our testimony provides some general background information on Federal credit programs; reviews the credit legislation proposed by the Administration and its expected impact on the major VA credit program—the home loan guaranty program; and indicates our rationale for opposing credit reform legislation.

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*Some differences from the proposal submitted last year are noted in the budget, but MBA presumes, for the discussion in this statement, that the broad concepts of the Administration's revised credit proposal will be substantially the same.

Background and Current Budgetary Treatment

Federal credit takes many forms. In some instances, the Federal government serves as the lender of last resort, and provides capital for borrowers who would not be served by the private sector at all. Those borrowers pay principal and interest on a loan directly to the government. At the VA, the only direct mortgage loan program, the vendee program, serves a different purpose: expediting sale of acquired VA properties. However, the program is cost effective for the Federal government, and the basic mechanics of this program as a direct loan program are the same.

The Federal government has taken other steps to facilitate homeownership. Many low-, moderate-, and middle-income homebuyers are served by Federal mortgage credit programs. To facilitate the growth of homeownership for this category of borrowers, the Federal government has taken the lead by developing a number of innovative insurance and guaranty programs.

One such program is the self-supporting Federal Housing Administration (FHA) Section 203(b) program, where the private sector provides the funds for the loan, FHA provides insurance, and FHA borrowers pay insurance premiums, which are set to cover program defaults and administrative costs. Likewise, in the VA home loan guaranty program, capital for the loan is provided by the private sector, and the Federal government guarantees a portion of the loan and agrees to reimburse the private lender for that portion if the borrower defaults. That additional security provides an incentive for the lender to provide the mortgage funds, and does not cost the government anything except administrative oversight costs unless the borrower defaults. The VA home loan guaranty program has clearly been successful in inducing private lenders, such as mortgage bankers, to provide funds for no-downpayment mortgages to veterans, thus facilitating homeownership for a group which Congress has determined is entitled to that benefit as payment for service to our country.

For FY 1989, the Administration projects that housing and mortgage credit programs will account for an estimated 69 percent of all new Federal loan guaranty commitments. (Source: Budget of the United States Government: FY 1989, Special Analysis F, 6b-5.) Consequently, mortgage bankers, who originate many of these insured and guaranteed loans, are deeply concerned about legislative proposals which would entail alteration of the VA and other Federal housing guaranty programs in the context of altering Federal budget structures.

Federal credit programs (e.g., direct loan, loan guaranty, and insurance) are currently subject to a "credit budget," which separately tracks and limits commitments in these programs. The credit budget is included in the President's annual budget submission and is also included in the Congressional budget resolution. Many credit programs are placed under annual commitment and obligation limitations in appropriations bills, although the VA home loan guaranty program, as an entitlement, is not.

The Administration contends that while the credit budget has helped to limit new direct loan obligations and guaranteed loan commitments, "it does not allocate resources to credit programs according to the true cost of credit, the present value of the subsidy." (Source, id., 6b-8.) The Administration states that not only is there ineffective control, but that resources are misallocated because there is no incentive to limit loan programs with large subsidies. (Id.)

FY 1988 Proposals

Consequently, the Administration proposed the "Federal Credit Reform Act of 1987" last year. The basic elements of the credit legislation are described below.

Under the credit legislation, Federal agencies would be required to request an appropriation for the "grant equivalent subsidies" associated with their direct loan, insurance, and guaranty programs. The "grant equivalent subsidy" for direct loans was estimated as the difference between the terms and conditions borrowers would receive if they borrowed in the private market, and the terms and conditions they receive from the Federal government. When credit legislation was transmitted to the Congress in March 1987, the Administration proposed that a valid way to measure the "grant equivalent subsidy" would be to sell newly made direct loans. For loan guarantees, the "grant equivalent subsidy" was the difference between the amount that the borrower pays for a Federal guaranty and what the borrower would pay to to reinsure the loan.

While the Administration's legislation was introduced in both the Senate and the House last year, and some hearings were held on credit programs, Congress did not actively consider the Administration's legislative proposal. Last summer, the Senate did adopt legislation changing the budget procedures for Federal credit programs, as a floor amendment to the Debt Limit Extension (H J Res 324). MBA opposed that amendment, as well, because it contained many of the features of the Administration's credit proposals. However, we note that proponents of the amendment claimed that the definition of subsidy used in that legislation was tied to the Treasury's cost of borrowing, which would presumably yield a lower subsidy amount than the Administration's proposal and which would more closely parallel the operating and default expenses of a particular program.

The Conferees on the Debt Limit Extension dropped the proposal to modify treatment of Federal credit programs. Instead, they requested that the Congressional Budget Office, in consultation with the General Accounting Office, study Federal credit programs and report to Congress on considerations in establishing a system for using credit information in the budget process. The study has not yet been transmitted to Congress.

FY 1989 Administration Proposal

The Administration modified its approach to estimating the "grant equivalent subsidy" this year and dropped the sale and reinsurance cost estimation method. Instead, the Administration appears to be proposing that "grant equivalent subsidies" be measured by calculating the present value of the difference between the net cash flow the borrower pays under the terms and conditions of the Federal programs and the net cash flow under the terms and conditions of financing for a similar loan from a private lender. The method compares the interest rate for a direct loan and the "comparable" private loan. As proposed, the selection of the "comparable" private loan is a decision made by the Office of Management and Budget (OMB).

The Administration's "grant equivalent subsidy" is now shown in the FY 1989 budget under "proposed legislation, grant equivalent subsidy." That legislation has not yet been transmitted to Congress, and no time frame is evident at present. However, OMB has estimated the present value of these "grant equivalent subsidies" for the VA home loan guaranty program at 6.6 percent for FY 1989, 6.7 percent for FY 1990, and 6.8 percent for FY 1991 through FY 1993; and 16 percent for the vendee loan program in FY 1989 through 1993. These "grant equivalent subsidies" require an appropriation of $1.1 billion for the home loan guaranty program and $200 million for the vendee loan program. While it is clear that the VA home loan guaranty program is not actuarially sound, these estimates grossly overstate the actual FY 1989 dollar cost of the program, which is the $658 million FY 1989 appropriation request.

According to the Special Analysis F, two new Federal credit revolving funds would be established at Treasury—one for the financing of direct loans and one for guaranteed loans. Federal agencies would be required to obtain appropriations from Congress for the grant equivalent subsidy costs of loans and guarantees. This requirement would be in addition to the present practice of setting appropriation activity limitations on programs.

Although Federal agencies would continue to originate direct loans and guarantees as they do now, it is our understanding that agencies would pay the grant equivalent subsidy component of the loan and guaranties into the revolving loan funds as commitments for loans are made. For direct loans, the nonsubsidized balance of the loan would be provided through borrowing from the Treasury; and for loan guarantees, Treasury would assume responsibilities for defaults.

The Treasury Department and OMB would appear to have the final decision making capacity in estimating and assessing the subsidy, with little or no Congressional input. MBA is concerned that there is inherent inequity in allowing the Administration to estimate the "economic impact" of the activity as a cost of credit programs, while such estimates are not applicable to regular spending programs. Further, the methodology used to make these estimates is not set in law, and could easily be subject to administrative change.

In addition, the revised process provides little in the way of checks and balances, and false and misleading "grant equivalent subsidy" estimates could become permanent law. "Grant equivalent subsidy" estimates would be appropriated, but would not be revised.

Consequently, the estimate for a particular loan guaranty would not be revised in accordance with subsequent changes, e.g., prepayments, or a change in interest rates, which would vary the "grant equivalent" subsidy. Therefore, "grant equivalent subsidy" estimates would be inherently inaccurate.

While the VA home loan guaranty program has always been an entitlement and is exempt from sequestration, these budget process changes would place additional pressure on Congress to change the program because costs would be overstated. MBA believes that if an Administration credit proposal is adopted, it could necessitate dramatic changes in the features of the VA guaranty program. The original Congressional intent behind the creation of the VA programs was to foster homeownership opportunities by enhancing the affordability and availability of mortgage credit with the Federal guaranty. To allow the U.S. Treasury to quantify a claimed "grant equivalent subsidy" would be particularly damaging if borrowers are assessed increased fees that are in effect "taxes" to offset all or part of the "estimated grant equivalent subsidy."

Over the last several decades, the Federal government and the private providers of mortgage funds have developed a working partnership that has successfully facilitated a growth in homeownership and the provision of safe and sanitary housing for many Americans. Through development of innovative financing programs, the Federal government has fostered the flow of capital to housing and mortgage credit. Many of these financing programs are loan, loan guaranty, and insurance programs that—like the VA home loan guaranty program—would be affected by the credit reform proposals. MBA encourages the Committee to evaluate the Administration's proposal carefully before any action is taken, and urges the Committee to oppose enactment of the credit reform proposal.

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March 4, 1988

The Honorable Alan Cranston
Chairman, Committee on Veterans' Affairs
414 Senate Russell Office Building
United States Senate
Washington, D.C. 20510-6375

Dear Mr. Chairman:

Thank you for your request of February 26, 1988, for our views on the Administration's legislative proposal on federal credit subsidy legislation.

We are enclosing a statement responsive to your request.

Thank you for the opportunity to present our views. We will be available for such follow-up on this as would be helpful.

Sincerely,

Stephen D. Driesler

Enclosures

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STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
TO
THE SENATE COMMITTEE ON VETERANS AFFAIRS
ON
ADMINISTRATION'S PROPOSED LEGISLATION ON FEDERAL CREDIT SUBSIDY

March 7, 1988

We are pleased to respond to the Chairman's request for our views on the Administration's proposed credit subsidy legislation.

We address our comments to the Administration's draft of a bill dated March 1987. In addition, we include (and separately identify) views about certain provisions of the Senate-passed version of such legislation, which the Administration gave support to. We have proceeded in this way since a spokesman of the Office of Management and Budget (OMB) advised that a new draft bill is not being submitted because one was transmitted in 1987.

We believe the proposal is unsound, is unnecessary, and would be disruptive and damaging to housing programs and their effectiveness.

This proposal would place into law a combination of definitional and procedural changes that would profoundly change how decisions are made and who makes them about each of the federal credit programs.

A central concept of the draft proposal is to create a unique definition of subsidy that would include amounts that exceed costs of the government and would include benefits to the borrower. We believe it is fundamentally unsound to overstate the government's loan subsidy costs. In addition, this overstatement and departure from government accounting practices would be applied only to credit programs, even though scores of other federal programs could also be described as yielding benefits to users that exceed the government's costs. The General Accounting Office (GAO) presented testimony against this departure from accounting practices to the Senate Budget Committee March 3, 1987.

We believe that the draft bill grants far too much discretion to the Executive Branch to determine the "subsidy" that must be appropriated. The Treasury Secretary is given final authority to make the estimates of the presumed subsidy amounts. No method is provided by which the Congress could overrule the Treasury's decision on such amounts. Assume Treasury estimated that an insured loan program would, at current fee level, require a subsidy but the Congressional committees disagreed and believed present fees are more than adequate. In that case, Congress would appear to be barred from providing the credit authority for these insured loans. We believe that any Treasury determination of "subsidy" amounts should be subject to Congressional action before it could become final. The Senate-passed language, specifically (Sec. 311(b)), amended Section 402 of the Congressional Budget Act of 1974, making it not in order to include new credit authority in any appropriations bill unless the bill also provides the "subsidy" appropriations.

The proposal, if adopted, would have a major impact on the federal mortgage credit programs -- chiefly because these procedural mechanisms and the degree to which the Treasury will control the subsidy estimates will affect the availability of these programs. If borrowers, lenders, and investors are uncertain that these programs will be available at all times, this uncertainty could result in an unwillingness to use the programs. These mechanisms will also pressure authorizing committees to increase user fees rather than to seek appropriations to cover the Treasury Department's determination of an estimated subsidy.

We oppose the addition of yet another layer of budget and appropriations procedures on these programs because of the added burden and because it is unnecessary. Gramm-Rudman-Hollings (G-R-H) imposed the requirement that all Federal credit programs be subject to credit budget limits that place a ceiling on program activity. This requirement was intended to give Congress a "handle" on the level of Federal credit. The credit "reform" proposal currently under consideration does not remove the credit budget requirement, but adds an additional procedural layer. Apart from the G-R-H requirements, credit programs activity caps had been included in appropriations bills for most discretionary credit programs. The current status of coverage of credit programs by caps is portrayed in Tables F-3 of the Special Analysis of the Fiscal Year 1989 Budget (Attachment 1).

We question the validity of the criteria which the bill identifies for the "subsidy" determinations. The draft bill provides that the Secretary of Treasury's estimates of "subsidy" shall, to the extent practicable, be based upon experience from sale of direct loans or reinsurance of loan guarantees. To illustrate our questions: the investor's cost of money would make a loan sold to the investor worth less to him than its present value to the government, with the government's lower cost of money.

We also question using the cost of reinsurance of loan guarantees as a sound guide to "subsidy" amount. There is a great lack of comparability between private insurance experience and the government's loan guarantee activities. Hence the pricing of reinsurance could be expected to be a very unreliable guide, at best.

We see no need or justification for the provision of the draft bill that authorizes the purchase of reinsurance of loan guarantees. Also it would probably violate one of the Administration's criteria for privatization, i.e., efficiency (lower costs). The tentative estimates used by the Administration one year ago when it was recommending reinsurance of loan guarantees for the FHA program for Fiscal Year 1988, showed a substantial cost increase over current borrower costs, which already over-finances the risk according to the reports of the actuaries for the Department of Housing and Urban Development.

We believe the draft bill would impose higher costs on the FHA borrowers, since it authorizes the Secretary to transfer funds believed to be in excess of the needs of the Fund into the Government's general fund. This would reduce the balances accumulated from borrowers' fees on which $560 million interest was earned in Fiscal Year 1987. This would increase and overstate the apparent costs of the FHA Mutual Mortgage Insurance Program.

The Senate-passed bill also appears to eliminate or reduce the insurance reserves in the individual agency accounts that are continued for old (pre-enactment) loan guarantees and in the new central fund in the Treasury. By cutting off the interest earned on such transferred balances, the apparent costs of the loan guarantees would be increased and overstated.

Both the draft bill and the Senate-passed version leave the mutual aspect of the Mutual Mortgage Insurance Program in question and in doubt. In neither bill do we find language that would make clear that borrowers can expect refunds when their loans have been repaid. We are concerned that the authority to transfer balances to the Treasury's General Fund could and would undercut this long-standing mutual arrangement.

We are concerned that the Senate-passed bill is internally inconsistent since it appears in Sec. 304(f), Sec. 305(g) and Sec. 312(a) to preserve intact existing program agencies' authorities, but on the other hand, in Sec. 304(b), Sec. 305(b), and Sec. 307(3) seems to restrict those authorities. We commend your Committee's leadership in your efforts to resolve this conflict, and encourage your perseverance in that effort.

We want to highlight an ironic consequence of the draft proposal, i.e., much of the money that would be appropriated for "subsidies" would eventually be transferred to the Treasury General Fund, as receipts to the government. The amount of those transfers would basically reflect the extent that "subsidy" amounts exceed the government's actual costs. The net effect would be that the proposal will create the appearance of being a revenue raiser, even though the "revenue" will have been provided by appropriations.

Table F–3. CREDIT BUDGET PROGRAMS SUBJECT TO AND EXEMPT FROM APPROPRIATIONS ACTS LIMITATIONS

(In millions of dollars)

	Direct loan obligations			Guaranteed loan commitments		
	1987	1988	1989	1987	1988	1989
Limitations enacted	12.807	11,987	7,664	114,651	114,147	92,331
Less: Unused balance of limitation, expiring	−2,259	−1.000	−456	−25.847	−35,876	−13,210
Loan subject to limitation	10,548	10.987	7,208	88,804	78,270	79,121
Loans exempt from limitation	19,269	17.830	12,797	53.260	45,404	36,185
Total	29,817	28,817	20,005	142,064	123,333	115,306
ADDENDUM						
Secondary guarantees subject to limitation				139,976	83,355	83,609

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PVA

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March 7 1988

The Honorable Alan Cranston, Chairman
Senate Committee on Veterans' Affairs
SR-414 Russell Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to respond to your letter dated February 25, 1988, regarding the Administration's federal credit-subsidy legislative proposal and the Gold Star Wives' proposal to distribute the FY 1988 DIC COLA in equal amounts to all DIC recipients.

We included in our written testimony for the Committee's March 4, 1988, hearing our views on the Administration's proposed credit subsidy legislation. To summarize our position, PVA is opposed to this initiative because we feel the VA's role will be diminished in the area of both administrative and fiscal control. We believe such activity belongs entirely within the jurisdiction of the VA Home Loan Guaranty Program.

In regard to the Gold Star Wives' proposal to distribute the FY 1988 DIC COLA in equal amounts to all recipients, PVA takes no formal position; however, we have several concerns about such an initiative.

According to figures obtained from the Veterans Administration, there were approximately 260,000 surviving spouses in receipt of DIC as of September 1987. Of these DIC spouses, almost 200,000 (77%) received their DIC based on enlisted pay grades E-1 through E-7. In the E-1 category alone, there were over 35,000 recipients. In comparison, there were 31 beneficiaries whose DIC was based on pay grade O-10. As a result of this swollen representation at the lower end of the pay grade scale, the relative benefit of a "one-time flat rate increase" is questionable. The 4.2 percent COLA effective December 1, 1987, if distributed equally to all DIC recipients, would translate into an average "one time flat rate increase" of only $2.50/month ($30/year) for the first five pay grades. All other recipients in the E-8 through O-10 pay grades would suffer from such legislation. Beneficiaries in the O-10 pay grade would realize an inequitable loss of $30/month ($360/year).

PVA's concern is twofold. First, we must not assume that DIC beneficiaries in the E-8 to O-10 pay grades live financially secure lifestyles. For the most part, these recipients simply cannot afford reductions in what may be

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their only source of income. Surviving spouses in receipt of DIC generally do not receive benefits from the military's Survivor Benefits Plan. Secondly, we feel such legislation would set a precedent which could greatly complicate the manner by which we appropriate subsequent DIC budgets. Total DIC obligations each fiscal year include benefits not only for surviving spouses, but for children and eligible parents as well. Such a proposed COLA adjustment would be totally inappropriate for DIC children and DIC parents whose eligibility is based on need. In order to be equitable, future COLA distributions would have to be applied appropriately to each group's base entitlement. Although this proposal specifically states that it is not an on-going recommendation, a "one time flat rate increase" would, in fact, have a lasting impact on all subsequent COLA's.

If enacted, the Gold Star Wives' proposal would result in minimal absolute gain for some beneficiaries and a disproportionate absolute loss for others. PVA recognizes the inadequacies of the current DIC program; however, we continue to believe that our combined efforts should be directed toward eventual legislation that would result in permanent changes in the formula by which DIC benefits are determined.

Sincerely yours,

Douglas K. Vollmer

Douglas K. Vollmer
National Legislative Director

DKV/df

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

March 4, 1988

The Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, DC 20510-6375

Dear Mr. Chairman:

This is written in response to your request for the views of the Veterans of Foreign Wars on the Administration's proposed credit subsidy legislation. As you know, this proposal embraces estimating the so-called grant equivalent subsidy value of Federal credit programs and, in the case of the Veterans Administration, would require appropriations of appoximately $1.1 billion in FY 1989. The VFW is highly appreciative of the Chairman for soliciting our views in this matter which we recognize as harboring grave consequences for the VA home loan program.

This proposal initially surfaced last year in the form of legislation, S. 745, and amendments to the President's FY 1988 Budget. Essentially, this proposal would require estimating and reporting the subsidy costs of new credit activity in individual agency budget accounts. Under this proposal the VA would be mandated to request annual appropriations equal to the amount of subsidy estimated to be provided to borrowers receiving VA home loan guaranty mortgages and vendee loans during each fiscal year. The proposal requires subsidy payments to a central revolving fund at the Treasury prior to making a loan. The agency will continue to administer the program, but the Treasury will be the central finance mechanism for new Federal loans. The Administration estimates the subsidy value for guaranteed loans to be 6.6 percent in 1989 and 16 percent for vendee (direct) loans for all years.

The subsidy appropriations would be to a new budget account--a companion of the VA Home Loan Guaranty Revolving Fund--and would involve budget authority and outlays in the same manner as direct spending programs. When loans guaranteed under the home loan guaranty program were dispersed or property exchanged for vendee loan mortgages, the VA would use these appropriations to pay the estimated subsidy costs of the tranactions to a new central revolving fund in the Treasury. The Veterans of Foreign Wars adamantly opposes this proposal since it would restrict the VA home loan program's operation and subject veterans to undue hardship.

★ WASHINGTON OFFICE ★
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One must not lose sight of the fact that the government provides a subsidy to a borrower only by incurring an equivalent loss. Along with the general expense inherent to operating the loan guaranty program, the major cause of "equivalent loss"--of losing money--to the program fund is when loans go into default. Thus, this so-called credit reform proposal would call for an appropriation of actual dollars to be set aside to cover an estimated loss which may never be realized, that is, the estimated number of loans may well not go into default. The VA would be prevented from utilizing scarce appropriation's dollars for the sake of responding to chimerical paper loses. As an illustrative point, we would mention that had this credit reform proposal been in effect during the many years that the VA home loan program operated at a small profit, appropriations still would have been necessary, to pay for a nonexistent Federal subsidy.

Another obvious flaw in this proposal is that such an appropriation would restrict the number of loans the VA could make in a given fiscal year. Given that an actual appropriation would be required to counter potential or paper losses, once the loan appropriation is used up, the timely enactment of necessary supplemental appropriation would be unlikely. Indeed, in these troubled fiscal times, the likelihood of the Congress approving any supplemental appropriation at all is dubious. Thus, untold deserving veterans would be prevented from obtaining a VA loan and the VA loan program itself would suffer because origination fees that would have been paid on new loans would not be realized. The VA loan program would also suffer because its much needed vendee loan activity would be stopped dead in its tracks. The VA would lose profits and the critical rebuilding of the vendee loan portfolio would also be halted. That this would also be highly detrimental to the banking and building industries is evident. Thus, this credit reform scheme harbors disastrous consequences for the veteran, the VA loan program and the nation.

We will also comment at this time on legislation which is being proposed to repeal the Administrator's authority to establish maximum interest rates. The Veterans of Foreign Wars strongly opposes eliminating the Administrator of Veterans' Affair's current authority to establish the VA home loan interest rate. We view the often posited argument that this authority limits a veteran's ability to negotiate a more favorable rate as specious. The VA established rate is, in fact, only a ceiling which certainly does not disallow a veteran and a lending institution from negotiating a lower mortgage rate. The VA established rate not only provides the veteran with greater parity in an unequal market place, it also serves as a national benchmark providing both the mortgage and the building industries with a degree of stability that they would not otherwise enjoy. We are convinced that eliminating the Administrator's authority to establish an interest ceiling would be a serious mistake, working against the veteran's best interest and seriously jeopardizing a most beneficial program.

Finally, your letter requested our views on a proposal made by the Gold Star Wives which provides that the funds for the FY 1989 DIC COLA be distributed in equal amounts to all DIC recipients, paying each a "one-time flat rate increase." The Veterans of Foreign Wars truly wishes to see all DIC recipients receive an amount sufficient to insure an adequate standard of living. All the widows of this nation's fallen heroes should be properly provided for by the government for which their spouses laid down their lives. With respect to Gold Star Wives proposal to make an equal one-time flat rate COLA payment to all DIC recipients, the VFW has no resolution addressing this issue; and we may, therefore, only urge that all DIC recipients be provided with sufficient compensation. We believe any alteration in the current DIC award formula should be undertaken with the complete knowledge and concurrence of all involved parties.

Once again, I would like to express our sincere thanks for your having solicited our views on these matters. If you have any other questions or concerns, we would be all to happy to respond. With best wishes and kind regards, I am

Sincerely,

James N. Magill

JAMES N. MAGILL, Director
NATIONAL LEGISLATIVE SERVICE

Vietnam Veterans of America, Inc.
2001 S St., NW
Suite 700
Washington, DC 20009-1125

(202) 332-2700

March 4, 1988

The Honorable Alan Cranston
Chairman, Committee on Veterans
  Affairs
SH-112 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Cranston:

This letter will respond to your inquiry about the VVA's views of Administration-proposed legislation on federal credit-subsidies. As we understand this proposal from the documents you provided along with your letter, VA mortgage guarantees would be assigned a value based on the cost of the subsidy to the federal government. Once the VA had guaranteed loans equaling a congressionally set authorization level, no further loans could be guaranteed without additional congressionally-approved authority.

From the standpoint of achieving accuracy in accounting for government-wide credit activity this proposal may have merit. However, there has never been any misunderstanding about this Administration's historic efforts to get the federal government out of the credit business. Early adoption of ill advised proposals to require VA to sell off its income-generating home loan portfolio has created dire conditions in the home loan guaranty program that still persist. In view of this history and without being precisely certain of what the Administration really has in mind with this latest proposal, the VVA is constrained from endorsing it.

Your letter also asked our views of a proposal put forward by the Gold Star Wives. Mr. Chairman, we view the tying of DIC payment rates to the military pay grades of individuals having served in the military years ago to be inappropriate. The pay rate of an individual having served in the military often many years prior bears no clearly relevant relationship to the actual cost of living for a surviving spouse beneficiary. The provision of greater benefits for the survivors of individuals having had higher military pay grades is inequitable.

Under the Gold Star Wives' proposal the 1987 4.2 percent cost-of-living adjustment would be dispersed by awarding equal increases to all beneficiaries. This might provide some relief for DIC recipients on the lower end of the benefit scale but this relief would only be temporary. The underlying inequity would remain untouched. Additionally, to unilaterally reduce the COLA for DIC recipients at the upper end of the benefit scale would be similarly unfair and would still leave the underlying inequity untouched.

★ A not-for-profit national veterans' service organization ★

Hopefully this reponse addresses your questions satisfactorily. Should you have further questions feel free to contact this office again.

Sincerely,
Paul S Egan
Paul S. Egan
Legislative Director

PSE/jdw

GOLD STAR WIVES
OF AMERICA

Gold Star Wives of America, Inc.

STATEMENT OF

GERALDINE B. CHITTICK, LEGISLATIVE CHAIRMAN
GOLD STAR WIVES OF AMERICA, INC.

TO THE

SENATE COMMITTEE ON VETERANS' AFFAIRS

CONCERNING FISCAL YEAR 1989 BUDGET FOR VETERANS' PROGRAMS

FEBRUARY 25, 1988

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE,

Thank you for the invitation to present written testimony of GOLD STAR WIVES OF AMERICA. We welcome this opportunity to review the position of our organization in the area of particular concern to service widows.

Our testimony will address only the area of the fiscal year 1989 Budget for Veterans' Programs from the standpoint of Dependency and Indemnity Compensation. Although many of our members have availed themselves of the use of the Veterans' Home Loan Program and we understand some of the problems necessitating improvements, we are really not in a position to make a knowledgeable statement in that area.

GOLD STAR WIVES OF AMERICA continues to be increasingly distressed as year after year goes by under the current DIC formula, thus increasing the differential between top and bottom of the 23-rank category rate scale to a colossal $809 per month - far more than the total income of many DIC recipients. Although we understand the budgetary constraints that continue to prevent a revision of the DIC formula, we believe the problem with the present formula has become unconscionable. The bare necessities of life -- housing, food and health care -- increase nearly equally, especially for the elderly, regardless of economic status. Spiraling prescription drug costs are not truly reflected in CPI figures.

It is because of this continuing situation that GOLD STAR WIVES OF AMERICA passed the following Resolution at the 1987 National Convention:

WHEREAS, the disparity between top and bottom DIC rates has increased from $259 when the current formula was enacted to $776 this year; and

WHEREAS, Gold Star Wives of America has recommended, since 1977, a formula revision which would be more equitable and which would not be made obsolete by inflation; and

WHEREAS, Gramm-Rudman-Hollings budget restrictions will prevent formula revision for at least three more years;

THEREFORE, BE IT RESOLVED: That Gold Star Wives of America request for 1988 a a one-time flat rate increase for every recipient of DIC and that Veterans' Affairs Committees introduce a bill to disburse the 1988 appropriated COLA funds equally to all DIC recipients.

We acknowledge that the COLA for those paid at higher rates would be lessened; however, we do not believe the common theory applies here when we are considering the plight of the widows of men who answered their country's call at a time when many were denied the privilege of living long enough to develop into their full potential.

And note, also, that our organization did not (and does not) call for this proposal to be an on-going recommendation -- it was requested as a one-time proposal to halt -- for a year -- the growing spread between those being compensated for their loss. The majority of our membership believe in showing some compassion for our fellow-widows.

We thank the Chairman and members of this Committee for your recognition of our concerns and your diligence in securing and protecting the benefits which are so vital to those comprising the membership of our organization.

Written Testimony to the United States Senate Committee on Veterans Affairs

Submitted by
Dale Colby, President
California Association of REALTORS®
March 2, 1988

As President of the California Association of REALTORS®--the statewide trade organization representing the interests of over 115,000 real estate licensees in California--I am grateful to have the opportunity to present our perspectives on the provisions of President Reagan's FY 1989 budget relating to the VA Home Loan Guaranty Program and S. 2049, the Veterans Home Loan Program Improvement Act of 1988. This testimony is submitted in conjunction with, and in support of, that presented by the National Association of REALTORS®. The business activities of C.A.R.'s membership involve the brokerage of real property as well as providing assistance to homebuyers in securing mortgage financing for their purchases. It is this business focus of our membership, and the attendant importance of the VA program in meeting the needs of California's veteran homebuyers, that motivates C.A.R.'s interest in the issues presently before the Veterans Affairs Committee.

I. Introduction

In terms of home loan activity, 1987 proved to be the VA's busiest year in history. For the fiscal year, a total of 479,491 loans were closed and guaranteed by the VA; 66,826 of these loans were originated in California. The dollar amount of these loans also reached record levels. The VA guaranteed loans totaling $34.9 billion in FY 1987 with $6.4 billion of this activity coming in California. These figures are remarkable for the sheer increase they represent over the previous year's activity: The total number of loans guaranteed by the VA nationally rose 56 percent in 1987, with an even larger increase of 76 percent in California. Concurrently, the aggregate dollar volume of loans guaranteed by the VA rose 60 percent nationally and 80 percent in our state.

As is evident, the VA Home Loan Guaranty Program plays an indispensable role in addressing the housing needs of California's first-time and moderate-income veteran homebuyers. Indeed, the role of government-supported financing in meeting these needs has become even more significant in recent years in response to the more stringent underwriting requirements imposed by conventional lenders and secondary mortgage market investors. C.A.R. data indicates that more than 35,000 resale homes were purchased with VA financing in 1987. The relatively high usage of the VA program in California is extraordinary because of the program's statutory loan guaranty limit that, until last year's increase, limited the effectiveness of VA mortgages in many of the high-cost market areas of the state.

Over the past two decades, home prices in California have consistently outpaced those found in the rest of the nation. By the end of 1987, the median price of a resale home in California was more than $145,000, more than two-thirds higher than the national median of $84,400. This persistent high level of home prices has sharply increased downpayment and income requirements, making homeownership exceptionally difficult for California veterans, particularly first-time buyers. These are precisely the problems that the VA program helps to solve.

In 1987, nearly 59 percent of newly-originated VA loans in California went to buyers purchasing their first home. Additionally, over half of VA borrowers were assisted in the purchase of their home through the use of the program's no-downpayment feature. Finally, as evidenced in the table below, the importance of the VA program to buyers of limited means is illustrated by the fact that the median income of borrowers using VA financing was $18,000 less than their counterparts using conventional financing. These statistics clearly demonstrate the vital role that the VA Home Loan Guaranty Program plays in helping California veterans achieve their dreams of homeownership.

Newly-Originated Conventional vs. VA Mortgages in California: 1987

Characteristic	Conventional	VA
Median Contract Interest Rate	8.33%*	10.0%*
Median Loan Amount	$126,000	$104,500
Median Sales Price	$160,000	$105,000
Median Downpayment	$34,000	0
Median Loan-to-Value Ratio	80.0%	100.0%
Proportion of First-Time Buyers	27.2%	58.8%
Median Annual Household Income	$54,000	$36,000

* Interest rates on conventional and VA loans are not strictly comparable because of the presence of adjustable-rate mortgages with initial rate discounts in the conventional mortgage market. The VA has not been authorized to guaranty adjustable-rate mortgages.

Before proceeding to the specific topics of discussion before the Committee today, the California Association of REALTORS® would like to once again commend the Veterans Affairs Committee for the development and enactment of the Veterans Home Loan Program Improvements and Property Rehabilitation Act of 1987 (P.L. 100-198). The loan guaranty increase achieved in the law--which raised the maximum VA loan without a downpayment to $144,000--will go a long way towards addressing the housing needs of veterans in the high-cost California marketplace. C.A.R. and the National Association of REALTORS® are presently engaged in discussions with the Government National Mortgage Association to determine if the effective VA loan amount can be increased above $144,000, provided that the veteran places a downpayment equal to 25 percent of the loan amount in excess of $144,000 (see attached letter). Adoption of this formula by GNMA would virtually replicate the two-tiered system that existed prior to the recent loan guaranty increase. C.A.R. is encouraged that 1988 will bring further enhancements to the VA Home Loan Program aimed at increasing the availability and quality of the entitlement, without the imposition of any additional costs on the nation's taxpayers.

II. FY 1989 Budget Issues

A. VA Interest Rates

The California Association of REALTORS® supports the proposal, as submitted in the Administration's FY 1989 budget, to repeal the requirement that the Administrator of Veterans Affairs set the maximum allowable interest rate on VA-guaranteed home loans. C.A.R. believes that interest rates on VA loans should be subject to the same market forces that impact rates in the conventional market. In recent years, with heightened levels of volatility in the nation's capital markets, temporary sharp increases in interest rates have substantially reduced the flexibility of VA financing in meeting the needs of veteran homebuyers.

Unlike the FHA program, which deregulated the administered interest rate in November of 1983, the maximum interest rate on VA-guaranteed loans is still administratively set. Consequently, movements in the ceiling rate frequently lag market rates. In 1987, a year of unusual interest rate volatility, the VA was forced to adjust the interest rate on loans it guarantees a total of six times. While VA borrowers are limited to paying no more than a one point origination fee, past history has shown that when market interest rates are at a level substantially above that permitted in the VA program, sellers marketing their homes to veteran buyers are often forced to pay discount points--or "yield adjustment" points--to lenders that can approach six to seven percent of the loan amount. As a result, sellers have become extremely wary of buyers using VA financing, and hence, compared to buyers using conventional or FHA financing, prospective veteran homebuyers are put at a severe disadvantage in the marketplace.

It appears that the volatile rate environment has often forced sellers to hedge their bets and cover the uncertainty over VA loan points in the price of the house. C.A.R. believes that the need for lenders to charge costly yield adjustment points and the necessity for sellers to recapture the expense of these points will be minimized by making the interest rate on VA-guaranteed loans subject to borrower-lender negotiation. Lender and borrower experience with freely negotiable rates and points on FHA loans has been generally positive. A similar deregulation of interest rates on VA-guaranteed loans would place veteran buyers on equal footing with conventional buyers and would provide for greater flexibility in the VA Home Loan Guaranty Program, more certainty to sellers, and an overall increased level of program effectiveness.

B. Credit Reform

C.A.R. is concerned about the federal "credit reform" provisions of the Administration's FY 1989 proposed budget as they would affect the mortgage credit programs of the FHA, VA and GNMA. We are wary of this proposal as it would, in effect, treat loan guaranty programs as direct spending programs for federal budget purposes and provide the Secretary of the Treasury with unilateral authority to determine the estimated subsidy amount involved in a specific loan guaranty program. With continued efforts to reduce the federal budget deficit, the authorizing committees of the Congress will be reluctant to seek appropriations to cover the estimated subsidy and instead will be pressured to increase program user fees. Additionally, any delay in providing the mandated subsidy appropriation could impact the availability of these programs, making borrowers, lenders and investors hesitant to use them. As an entitlement program, the VA Home Loan Guaranty Program should not be made subject to the partisan squabbles and political posturing that characterize the congressional budget-making process.

C. VA Funding Fee

C.A.R. commends the Congress for holding the line against proposed increases in the VA funding fee contained in previous Administration budgets and salutes the Administration for not including any funding fee increase in its FY 1989 budget proposal. P.L. 100-198 extended the present one percent funding fee through FY 1989 and C.A.R. hopes that any VA legislation emerging from the Committee will contain a similar long-term extension of the one percent fee. The VA Home Loan Guaranty Program should not be subject to political forces regularly seeking fee increases in the name of deficit reduction that would in fact only minimally add to federal coffers. The VA program is an entitlement program honoring the nation's veterans and rewarding them for the sacrifices made while in service to the nation.

III. S. 2049, The Veterans Home Loan Program Improvements Act of 1988

A. Independent Commission on the VA Home Loan Guaranty Program

As contained in S. 2049 (Cranston), the proposed creation of an independent commission to assess the status of the VA Home Loan Guaranty Program deserves serious consideration. We realize that high levels of defaults and foreclosures in economically distressed areas of the nation have resulted in high rates of VA property acquisition and increased program costs. Successful marketing strategies and techniques for the disposition of foreclosed real property have progressed broadly over the past decade or so and an independent assessment of the VA's property disposition procedures would provide insight into areas where present VA policy can be revised, upgraded and modernized. Because of their unique position in the homebuying and selling process REALTORS® have gained a thorough understanding of how the VA's programs operate in the "real world," both in terms of the VA's service to homebuying veterans and its efforts to market inventoried properties. As such, we believe that a REALTOR® could provide valuable perspectives to the proposed Commission's efforts to enhance the viability of the loan guaranty program.

B. Below-Market Vendee Loan Interest Rates

Section 3 of S. 2049 would authorize the VA to offer an interest rate on vendee loans that is lower than prevailing mortgage interest rates provided that the lower vendee rate is necessary to competitively market a property. C.A.R. recognizes the need for the VA to be able to offer below-market rate vendee loans in areas where private lenders and sellers may be buying down a portion of a loan's interest rate or offering below-market rate financing. We feel, however, that while below-market rate vendee loans should be made available to the VA, they should only be offered as a last resort where existing property disposition programs may have proven ineffective.

C. Assumption of Vendee Loans

While C.A.R. recognizes a need to install uniformity in the provisions of VA-guaranteed home loans, we do not support Section 4 of S. 2049 which would extend the VA loan assumability requirements established last year in P.L. 100-198 to newly-originated vendee loans. C.A.R. believes, as we testified to the Committee during hearings last year, that VA borrowers should have the option of either having their loan assumed on a "subject to" basis, thereby maintaining joint liability with the assumptor for a period of five years, or of having the assumptor undergo a creditworthiness test which, if successful, would result in the VA borrower being released from liability for the loan. This sentiment was the basis of a compromise worked out in discussions with the Senate in last year's VA bill (S. 1801). While preserving one of the most important features of VA loans, we feel this compromise successfully balanced the needs of the VA with the concerns of borrowers. Unfortunately, this compromise was not acceptable to the House of Representatives.

The hitherto unencumbered assumability provisions of VA loans have added greatly to their attractiveness and marketability and have enabled VA borrowers in financial difficulty to more easily "get out from under" their debt burden. During periods of rising interest rates, VA borrowers have benefited from the increased marketability--and enhanced value of their home--that free assumability provides. In conjunction with efforts to improve the marketability of VA foreclosed property--such as through the capability to offer below-market rate vendee loans--we believe that the free assumability provisions of vendee loans provide an important tool that enhance the appeal of vendee loans. These factors should be considered very carefully before the Committee considers any further changes to the assumability provisions of VA loans, vendee or otherwise.

IV. Other Issues

A. VA Staffing/Equipment Needs

As mentioned above, record demand for its services in 1987 placed a severe strain on the VA's ability to meet its commitments in a timely fashion. Many members of C.A.R. have experienced loan processing delays with the VA Home Loan Guaranty Program that are significantly longer than those normally found in the conventional mortgage market. These delays are not new to the VA program. During the refinancing boom of 1986 the VA also received a demand for its services that outpaced its ability to respond in a prompt manner. Limited staff resources and equipment shortcomings have also plagued the VA's property disposition efforts adding to the woes outlined above. To rectify these problems, C.A.R. feels strongly that the VA Home Loan Guaranty Program deserves additional staffing and equipment resources commensurate with the program's importance to California's homebuying veterans. These additional resources would go a long way towards eliminating the costly delays and uncertainties being experienced by veterans.

B. Reinstatement of a Veteran's Loan Guaranty Eligibility

In line with the Committee's goal of improving the quality of veterans benefits without raising costs to either the federal government or the veteran himself, we hope that one of the areas the Committee will study will be changes to the VA Home Loan Program that would allow reinstatement of full entitlement for veterans who have repaid a previous VA loan and are planning to occupy the property for which a loan guaranty is being requested, but who have not yet disposed themselves of the original property. If a veteran has repaid his or her loan in its entirety, the implicit cost of the loan guaranty to the federal government has ended. Reinstatement of full eligibility for a loan guaranty once an original loan has been repaid would well-serve the nation's veterans.

V. Conclusion

The California Association of REALTORS® appreciates being given this opportunity to comment on the issues before the Veterans Affairs Committee. Because of increased downpayment requirements and tightened underwriting standards in the conventional market, the VA Home Loan Guaranty Program continues to provide many lower-income and first-time buyers with their only real chance of owning a home. We sincerely appreciate the work the Committee has done in the past in strengthening the program and making it more responsive to the needs of the nation's veterans. If you have any questions regarding our testimony, please feel free to contact our chief economist, Joel Singer, at (213) 739-8269.

CALIFORNIA ASSOCIATION OF REALTORS®
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Executive Offices • *525 South Virgil Avenue, Los Angeles, California 90020* • *(213) 739-8200*

DALE COLBY
President

March 2, 1988

Mr. Mark Buchman
President
Government National Mortgage Assn.
451 7th St., S.W.
Washington, D.C. 20410

Dear Mr. Buchman:

As President of the 115,000 member California Association of REALTORS®, I am writing to you regarding the recent policy decision of the Government National Mortgage Association to limit the maximum VA-guaranteed mortgage in GNMA mortgage securities to $144,000, regardless of any downpayment made by the veteran. While C.A.R. applauds the efforts of the GNMA mortgage-backed security program in ensuring an adequate supply of mortgage credit to the nation's veteran homebuyers, we feel that GNMA's decision to not accept VA mortgages in excess of $144,000 for securitization defeats the purpose of the guaranty limit increase contained in the recently enacted veterans housing bill, HR 2672.

As you know, the two-tiered method employed prior to December's enactment of the VA guaranty limit increase enabled lenders to pool VA mortgages in excess of $110,000--the old no-downpayment maximum--up to the GNMA-imposed maximum of $135,000, provided that the veteran placed a downpayment equal to 25 percent of the loan amount in excess of $110,000. The higher VA loan amount made possible by the two-tiered system has proven to be invaluable to the California housing market where median home prices are more than 60 percent higher than the national median.

As stated, C.A.R. believes that the imposition of the $144,000 limit on VA mortgages largely negates the effectiveness of the VA loan limit increase recently enacted by Congress. C.A.R. statistics suggest that in 1986 and 1987, approximately 25 to 30 percent of VA borrowers in California obtained a mortgage amount greater than the old no-downpayment maximum of $110,000. By capping the VA loan limit at $144,000, borrowers in California and in other high-cost areas have been given an effective loan amount increase of only $9,000. In effect, GNMA's decision to restrict eligible VA mortgages to $144,000 will make the recent loan guaranty increase of limited benefit to precisely those veteran borrowers who need it the most.

With this past experience in mind, the California Association of REALTORS® urges GNMA to reinstitute the two-tiered method for determining the eligibility of VA-guaranteed home loans for GNMA mortgage securities. Specifically, we support the pooling of VA loans in excess of the current guaranty limit of $144,000 by permitting veterans to place 25 percent downpayments on the principal amount of the loan in excess of $144,000 up to a maximum loan amount of $180,000. This formula would virtually replicate the GNMA requirements that existed prior to the guaranty limit increase, providing for an effective maximum VA loan amount of five times the $36,000 loan guaranty maximum.

While we are aware of concerns over the larger number of "no-bids" that have plagued the VA program in recent years, we do not believe that reinstituting the two-tiered method of determining the eligibility of VA loans will exacerbate the no-bid situation. In fact under this proposal, loans in excess of $144,000 would have progressively larger downpayments, thereby reducing the likelihood that a veteran in distress would "mail in the keys." Numerous academic studies have shown that a borrower's cash equity is the strongest deterrent to default.

Once again, the Association would like to express our support for the efforts of your organization. GNMA plays an indispensable role in the nation's real estate finance market. We look forward to working with GNMA on this issue in the future. If you have any questions, please feel free to contact our Chief Economist, Joel Singer, at (213) 739-8269.

Sincerely,

Dale Colby

Dale Colby
President
California Association of REALTORS®

cc: Senator Alan Cranston

TESTIMONY OF SENATOR TOM DASCHLE
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES SENATE
MARCH 4, 1988

Mr. Chairman, I am pleased to have the opportunity to testify today on the President's FY '89 Veterans Administration budget, and the impact that proposal will have on the veterans of this nation.

I wish my comments on the Administration's budget proposal for veterans' programs could be favorable. That is not, however, the case. The budget offered by the President falls painfully short of adequately reflecting the commitment to care and treatment that America's veterans have earned.

While the shortcomings in the Administration's budget proposal are many, I would like to focus the weight of this testimony on three specific areas -- COLA increases, veterans health care and the Vietnam Veterans' Outreach Program.

I am greatly distressed by the President's "slight of hand" approach to dealing with veterans' compensation COLA. As you explained in your opening statement during last week's joint House/Senate hearings, Mr. Chairman, the FY '89 budget creates the illusion that funding for COLA is available, when actually additional legislation will be needed to assure our veterans and their eligible dependents that the benefits they earned will keep pace with the cost of living. I am disappointed that the Administration would play games with this critical aspect of the budget.

I would like to extend my appreciation to you, Mr. Chairman, for taking swift action to make sure COLA is enacted on a timely basis. I want to assure you of my complete support for your actions protecting America's veterans' abilities to meet life's basic needs.

The President's budget, as in previous years, continues to reflect efforts to cut costs in health care with little regard to the impact such reductions would have on veteran's lives. Proposals ranging from eliminating nearly 1,800 staff years from VA medical facilities to denying funding for recruitment and retention of qualified medical personnel disregard the needs of America's aging veteran population. The erosion of health care for our veterans represents the dismissal of this nation's promise to the heroes who defended our principals and beliefs, and who protected our way of life for our children. This approach is simply unacceptable.

One of the most disturbing aspects of the President's budget is the reduction of $4.7 million and 79 staff years for the Vietnam-era Veterans Readjustment Counseling Program. Vet Centers across this nation have provided Vietnam-era veterans with invaluable help and support. Vet Centers provide a unique setting where the veterans can seek help, in a comfortable atmosphere, to deal with the devastating scars of war that followed them home.

For the last three years Vet Centers have been battling budget freezes and attempts at early phase-outs of the program. Making ends meet has not been an easy task. However, the commitment to their fellow-veterans in need of assistance has driven those staffing the Vet Centers to make the program work. It hasn't been easy, but they have found a way to serve their brothers in arms.

The reduction of funding and personnel from the Vet Center budget could result in the closing of 20 to 25 centers. I am informed that in my own state of South Dakota, the Vet Centers in Sioux Falls and Rapid City will be among those considered for elimination. Further, the recommended reduction in budget will devastate efforts to reach out to veterans in rural areas where access to Vet Centers, or any help of this nature, is simply not available. The impact of this cut will be devastating nationwide, but particularly severe in rural areas where the number of veterans per square mile is less, but their need for help remains as great. The 4,409 veterans helped in South Dakota will have to seek help elsewhere.

This assault on Vet Centers is an intolerable slap in the faces of Vietnam-era veterans. I look forward to working closely with this Committee to reverse this short-sighted and callous plan.

Certainly, my comments so far do not begin to cover all the shortcomings in President Reagan's proposed veterans budget. The lack of any funding for the Veterans Job Training Act and the lack of attention to the Department of Veterans Benefits are among the list of other issues needing attention.

I believe the areas I have raised serve, however, as an excellent indicator of the battle that needs to be fought on behalf of those who fought for us. The debt owed to America's veterans cannot be paralleled or compared to any other portion of the budget, and fulfilling our obligations to those who were willing to make the ultimate sacrifice for our freedom cannot be taken lightly. I am dedicated to seeing that our promises to those men and women are kept.

Thank you.

ALAN CRANSTON, CALIFORNIA, CHAIRMAN

SPARK M. MATSUNAGA, HAWAII
DENNIS DeCONCINI, ARIZONA
GEORGE J. MITCHELL, MAINE
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
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ROBERT T. STAFFORD, VERMONT
ARLEN SPECTER, PENNSYLVANIA

JONATHAN R. STEINBERG, CHIEF COUNSEL/STAFF DIRECTOR
ANTHONY J. PRINCIPI, MINORITY CHIEF COUNSEL/STAFF DIRECTOR

United States Senate
COMMITTEE ON VETERANS' AFFAIRS
WASHINGTON, DC 20510-6375

March 9, 1988

Mr. Richard Fuller
Associate Director of Legislation
Paralyzed Veterans of America
801 18th Street, N.W.
Washington, D.C. 20006

Dear Richard ,

I am submitting the enclosed questions in follow-up to our Committee's hearing on the fiscal year 1989 budget on March 4.

I look forward to receiving an answer to the enclosed questions as soon as possible.

Thanks for your cooperation and assistance.

With warms regards,

Cordially,

Alan

Alan Cranston
Chairman

Enclosure

Identical letter sent to :

Mr. Morgan Ruph, National Executive Director, AMVETS
Mr. Gordon Thorson, Special Assistant, VFW
Mr. Ron Drach, National Employment Director, DAV

POST-HEARING BUDGET QUESTIONS

1. In the Independent Budget (page 33), you state that it is particularly critical to increase funding for State home facilities to maintain services at the fiscal 87 level. Please comment on the role you see State home facilities playing in meeting veterans' needs for extended care.

2. In the Independent Budget (page 33), you state that high cost/high technology programs should be maintained only where workload volume standards can be met within a reasonable period of time. Do you believe that such programs are currently operating where workload volume standards as not being met within a reasonable period of time? If so, where are they located?

3. In the Independent Budget (page 38), you state that the VA health-care program currently faces serious problems of unmet need, including "problems of unmet need generated by developments in health care both within the VA and external to it". Please clarify how you see developments in health care contributing to the problem of unmet need.

4. You recommend in the Independent Budget (page 44) that the VA should increase the number of its formal Respite Care programs from 1 to 81 and state that the approximate cost for doing so would be $1 million.

A. How did you arrive at that increase in the number of programs?

B. Please provide the analysis underlying your cost estimates?

WRITTEN QUESTIONS FROM CHAIRMAN CRANSTON TO THE PARALYZED VETERANS OF AMERICA AND THE RESPONSES

1. Q: In the Independent Budget (page 33), you state that it is particularly critical to increase funding for State home facilities to maintain services at the fiscal 87 level. Please comment on the role you see State home facilities playing in meeting veterans' needs for extended care.

A: The coming need for nursing home beds to accommodate aged and disabled veterans is of a magnitude that cannot, under the most favorable circumstances, be met through conversion and construction of VA operated facilities. There will of necessity be heavy dependence upon private community homes and State home facilities.

We have expressed concern that the VA's great expectation of community nursing home availability through the coming decade is ill-founded. As stated in the Independent Budget document, many states, as a Medicaid cost control device, have frozen or severely restricted construction of new nursing homes within their borders. In this climate availability of large numbers of additional places for VA-sponsored patients is questionable. Any large increase in VA-sponsored census is likely to require displacing other patients, which could create strong resentments in the community. Moreover such increase in VA census is likely to create a bidding war against Medicaid, with the likely result being higher costs to the federal government for both Medicaid and VA health care.

Such inherent difficulties are not operative in the State veterans nursing home programs. For this reason the potential for increased state involvement should be exploited. Thus far states have shown only a limited willingness to accept the VA's construction subsidies for State home facilities, since most of the cost of operating these homes is borne by state budgets. Greater state incentive would be created should the Congress authorize considerably larger VA per diem payment. Federal expenditure would still be less than that required for VA or community nursing home care.

2. Q: In the Independent Budget (page 34), you state that high cost/high technology programs should be maintained only where work load volume standards can be met within a reasonable period of time. Do you believe that such programs are currently operating where work load volume standards are not being met within a reasonable period of time? If so, where are they located?

A: This statement was incorporated as a guideline not because the authors were referencing any known examples of under utilized equipment or programs, but to underscore the principle that especially in this time of austerity costly investments must not be wasteful An accumulated backlog is now on file of some one billion dollars in needed new and replacement equipment for the VAMCs. The system can ill afford any misuse of the limited annual appropriations for such items.

3. Q: In the Independent Budget (page 38), you state that the VA health care program currently faces serious problems of unmet need, including "problems of unmet need generated by developments in health care both within the VA and external to it". Please clarify how you see developments in health care contributing to the problem of unmet need.

A: We interpret the question to be referencing the developments in private sector health care which impact the VA system. (The central problem within the Va is the ever decreasing resources to meet ever increasing medical care demand. Examples of the resultant unmet need are identified on pages 53-55 of the IB document.)

The consequences listed below stem from implementation and promotion of the "competitive medical market" in operation now for the past several years. The medically indigent, including many veterans, are falling through the cracks. Few providers compete for medical care to the poor. The VA health care system as a some time promised safety net is progressively far from being fail-safe.

Annually increased copayments for Medicare to a degree exceeding the ability of many veterans to handle.

Reduction in Medicaid funding to a point where according to the AHA less than 50% of patients qualified are now accommodated.

Reduced access from forced closure of many rural hospitals and some public hospitals.

Growing numbers of individuals uninsured for health care - 37 million and increasing by one million per year.

Growing volume of rendered uncompensated care - seven billion last year.

Growing numbers of homeless veterans many with unmet need for medical and psychiatrical care.

4. Q: You recommend in the Independent Budget (page 44) that the VA should increase the number of its formal Respite Care programs from 1 to 81 and state that the approximate cost for doing so would be $1 million.

A. How did you arrive at that increase in the number of programs?

B. Please provide the analysis underlying your cost estimates.

A: The Independent Budget sets a target that all VA medical centers should have respite care by 1990. These very valuable programs can be implemented with little or no difficulty. The 1989 recommendation is to achieve approximately one-half of this 1990 goal.

The respite care program makes use of temporarily empty beds to deliver care to disabled and/or elderly patients enabling enervated caregivers a period of relief. This use of empty beds as they are available allows the respite care program to operate with approximately 0.5 FTEE as a coordinator. Costs were developed based on salary and fringe benefit averages for these coordinators.

AMVETS
National Headquarters
4647 Forbes Boulevard, Lanham, Maryland 20706
(301) 459-9600

March 16, 1988

The Honorable Alan Cranston
United States Senate
Washington, DC 20510-6375

Dear Senator Cranston:

This correspondence is in reference to your post hearing budget questions.

Please be advised that upon checking with the Independent Budget Corp staff I have learned that these questions have been responded to by same.

After reviewing the responses we feel that the questions have been more than adequately responded to and therefore we have no further input at this time.

Sincerely yours,

Noel C Woosley
Noel C. Woosley
National Service Director

NCW/hes

DAV

Motto: "If I cannot speak good of my comrade, I will not speak ill of him."

DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS
807 MAINE AVENUE, S.W.
WASHINGTON, D.C. 20024
(202) 554-3501

March 25, 1988

Senator Alan Cranston, Chairman
Senate Veterans Affairs Committee
414 Russell Senate Office Building
Washington, DC 20510

Dear Senator Cranston:

This is in response to your questions in follow-up to the Senate Committee on Veterans Affairs March 4, 1988 hearing on the Veterans Administration budget request for Fiscal year 1989.

The questions asked all relate to medical care recommendations contained in the Veterans Service Organizations Independent Budget proposal for Fiscal year 1989.

We have had the opportunity to review the responses recently furnished to these questions by the "core staff" of the independent budget project. We are in agreement with the responses and do not feel anything substantial may be added at this time.

Sincerely,

David W. Gorman

DAVID W. GORMAN
Assistant National Legislative
for Medical Affairs

DWG:qeb

WRITTEN QUESTIONS FROM CHAIRMAN CRANSTON TO THE DEPARTMENT OF LABOR AND THE RESPONSES

Question 1: The Veterans' Employment and Training Service (VETS) Counseling Project Working Group, in conjunction with the National Veterans Training Institute, has been developing a counseling module for training Disabled Veterans' Outreach Program specialists to provide "case management" services to Veterans' Job Trainining Act participants. What is the status of these efforts?

Response:

Using $316,445 in Job Training Partnership (JTPA) grant monies, the Veterans' Employment and Training Service (VETS) funded the Colorado Department of Labor and Employment to develop and implement a guidance and counseling training module for Disabled Veterans' Outreach Program (DVOP) Specialists and Local Veterans' Employment Representatives (LVERs).

A working group representing veteran service organizations, Job Service, Veterans Administration, the United States Employment Service, JTPA, DVOPs/LVERs, University of Colorado, and VETS was assembled to provide guidance in the planning and development of this training module.

The task force has met twice and has recommended that the counseling program be institutionalized within the National Veterans Training Institute (NVTI) and consist of three phases. The phases are sequenced to provide both immediate and continuing impact on the counseling and guidance services provided by DVOPs/LVERs and JTPA IV(C) staff.

Phase I will address the need for immediate improvement of counseling services for Veterans' Job Training Act (VJTA) participants. An intensive train-the-trainer program will be provided to enable a cadre of state staff to return home and conduct training for other state staff. We anticipate a total of 600 state staff will be trained between now and September 30.

Phase II begins a comprehensive program designed to raise the counseling competency of participating DVOPs/LVERs and JTPA IV(C) staff. Using mentors, and a core curriculum consisting of a number of different training components; i.e., on-the-job training, college courses, correspondence courses, NVTI courses, etc., the skill levels of the participating staff will be enhanced, enabling them to provide quality counseling services to veterans. Counselor mentors are to be utilized to provide technical assistance to participants and sign off when they have reached certain competency levels.

Phase III replicates Phase II, but is more comprehensive and expands the number of courses available. LVERs/DVOPs and Title IV(C) staff who participate in this phase may become certified counselors with the proper mix of education, experience and agency approval.

We anticipate Phase I to begin in April and Phase II in July or August. Phase III will be implemented in FY 1989.

Question 2: It would appear that integration of the management information systems of State Directors of Veterans' Employment and Training (SDVETS) and individual State Employment Security Agencies (SESAs) with respect to various data on indicators of services to veterans would provide a significant potential for more efficient and effective operations.

A. What specific efforts are being made to integrate such data in those systems?

B. To what extent do SDVETS and their assistants obtain access to and use SESA data on services to veterans as a preliminary step in the evaluation of local employment service offices?

Response:

During the requirement analysis phase of gathering data for the development of the Veterans' Information Management System (VIMS) the issue of integrating VIMS at the State level with the State Employment Security Agencies was addressed.

Our analysis revealed several issues:

- Not all SESAs had the same level of automation support;
- Not all SESAs would welcome the integration with outside sources;
- SESAs did not have the same type of hardware and software environment; and
- VIMS hardware could not integrate with every SESA without considerable planning and modification.

Based on this information two alternatives were looked at:

- Attempt to negotiate 52 agreements for authority to access SESA systems and increase the scope and cost of VIMS to include the necessary hardware.
- Allow each Director of Veterans' Employment and Training Service to negotiate with their SESA for access to and equipment (hardware and software) for interfacing with the SESA computer.

VETS decided that the most cost effective and expedient route to data integration was to allow each Director to negotiate the integration and access to their SESA. This has resulted in an initiation in the State of Arkansas whereby the Arkansas Employment Services Division has requested and we have approved the purchase of necessary software and miscellaneous items to complete this integration. We expect that several VETS Directors will be successful in similar negotiations this year.

VETS field staff routinely obtain SESA data regarding services to veterans as a preliminary step in the evaluation of local offices' services to veterans. Most must do this now manually; i.e., they receive hard copy printouts from the SESA of Employment Service Reporting System data. These data include all services provided veterans and non-veterans, are available on monthly and year-to-date bases, and are available on individual, local office, and State levels of detail. These reports are subsequently utilized extensively as a preliminary step in the preparation for conducting of local office reviews and evaluation of local employment service offices.

Question 3: In a November 9, 1987, letter to Acting Secretary Whitfield, I expressed concerns regarding the substantial delays which occurred in the Department's approval of a contract with the State of California under Title IVC of the Job Training and Partnership Act (JTPA). What steps are you taking to avoid such future delays in the contract approval process?

Response:

The delays which occurred in the Department approval of PY 1987 JTPA IVC grants were a result of several assumptions which proved to be incorrect. VETS changed its grants award process in PY 1987 from competitive grants to grants to State JTPA entities. The states were unprepared for the requirements of the PY 1987 Title IV(C) SGA which were more complex and comprehensive than grants under JTPA Title II. This resulted in many states submitting applications long after the target date. Since the application process was not competitive and it was unrealistic to disqualify a state because of failure to meet the deadline, the deadline was extended. Internally, VETS did not do an adequate job of preparing its field staff to conduct thorough initial reviews of the applications as they were received. This caused, in many instances, two or three separate requests back to the states for additional information or clarification. These actions delayed the start of the awards process to November.

A number of steps have already been taken to ensure that the problems of PY 1987 are not repeated. States will have the option to submit either a new application or request modification of its existing grant. The application process will be staggered, eliminating the bunching effect as the applications move through the review process.

VETS, working with the Office of Procurement Operations, has simplified the SGA for PY 1988. Revised Operation Manuals are being issued to VETS field staff to better prepare them as a key source for technical assistance for applicants. Training will be provided to VETS staff to ensure that they are able to perform effective reviews of the applications, eliminating duplicative requests to states for more information and the resulting delays. Finally, VETS will be able to use its automated tracking system to ensure that grants are processed timely and any problems are immediately surfaced to the appropriate management level for action.

We believe that the actions already taken and planned for are more than adequate to ensure that the problems encountered in PY 1987 will not occur again.

WRITTEN PREHEARING QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

QUESTION: I would also very much appreciate you providing to me the scores for FY 1989 projects listed in rank order (high to low), according to the VA construction methodology prioritization process, for all major medical construction projects that you proposed to OMB for inclusion in the FY 1989 request.

ANSWER: The following is a listing of those projects requested in the OMB FY 1989 submission. The projects are listed in priority order using the VA construction methodology prioritization process:

DM&S PROJECTS

Medical Center	Project Title	Final Score
Tampa, FL	120 Bed NHCU	19.0
Mt. Home, TN*	120 Bed NHCU	16.76
San Antonio, TX	30 Bed SCIU/Parking	15.50
Newington, CT	Medical Center Modernization	15.36
Indianapolis, IN	Clin Addn, Mental Hlth & Behv Sci Ctr	14.83
Nashville, TN	Clin Impr & Pat Privacy	14.24
Leavenworth, KS	Pt Priv, F/S Imps, B-122	13.56
Salt Lake City, UT*	Spinal Cord Injury & Canteen	12.71
Wilmington, DE*	Clinical Addition	12.28
Reno, NV*	Clin/Bed Add	12.17
Pittsburgh, PA	Replacement Medical Center (AP)	12.11
Montrose, NY	Renovate Bldg 15	11.86
Beckley, WV	Clin Add & Alterations	11.82
Mt. Home, TN	Replacement Domiciliary	11.73
Allen Park/Detroit, MI*	Replacement & Modernization	11.62
Perry Point, MD	Clin Addn, Bldg 23H	10.97
Atlanta, GA	Clinic Addition, Parking Garage	10.8
Dallas, TX*	Clin Add/Ren B-2 & SCI	10.67
Gainesville, FL*	Psych Building	10.07

DVB PROJECTS

Montgomery, AL	Relocate RO to VAMC Grounds	

DMA PROJECTS

Calverton, NY	Develop 90,000 Graves	

Note: VA construction methodology prioritization process does not currently address cemetery projects or projects for the Department of Veterans Benefits. Also, the construction methodology prioritization is only one tool used in determining which projects are selected for inclusion in the President's budget.

Projects noted with an asterisk (*) were submitted to OMB but were not included in the final FY 1989 major construction program.

QUESTION: I would also very much appreciate your providing to me the scores for FY 1989 projects listed in rank order (high to low), according to the VA construction methodology prioritization process, for all major medical construction projects with a priority score below 10.80, indicating those that you proposed to OMB for inclusion in the FY 1989 request and any added by OMB.

ANSWER: The following is a listing of those projects requested in the OMB FY 1989 submission listed in rank order using the VA construction methodology prioritization process with a priority score below 10.80 (OMB did not add any projects to the VA's request):

Medical Center	Project Title	Final Score
Dallas, TX	Clinical Addition, Renovate Building 2 and Spinal Cord Injury Unit (Design)	10.67
Gainesville, FL	240-Bed Psychiatric Building; Clinical Addition (Design)	10.07

Question: 1A. It is my understanding that, under the RAM, the average percentage change in uncapped case-mix direct and education expenditures (CMDE$) for FYs 1985-1987 for both the Bronx and San Francisco VAMCs reflect losses exceeding 20 percent. What analysis has been carried out to determine the reasons for such significant losses, what are the results of those analyses?

Answer: Each year since Fiscal Year 1984, both Bronx VAMC and San Francisco VAMC have been provided with the following analyses:

- Earned/Spent Analysis - a description by program area (e.g., bed section, ambulatory care, long term care) which identifies the areas in which the facility is gaining or losing funding under the Resource Allocation Methodology (RAM), and which identifies the problems as the results of the workload production, the funding available to the medical centers, and numbers and productivity of the direct care staff;

- Cost Center Analysis - takes the Earned/Spent to a more discrete level of analysis and illustrates the contribution of a cost center such as the laboratory or nursing service to a program area such as the surgery bed section or ambulatory care, and indicated whether or not the cost center is over-cost for the amount of work reported as produced;

- Inter-year Comparison: - during Fiscal Year 1987 a new analyses which compensates for changes in RAM over the years was developed, it illustrates the trend the facility has established in several statistically relevant indicators that predicts future performance under the RAM;

These and other discrete analyses, several individual comprehensive management briefings for the Bronx VAMC, and at least one for the San Francisco VAMC, and several comprehensive training sessions for key management staff were conducted.

The results of these analyses indicate, in general, for both medical centers that they have unit costs in a majority of program areas that exceed the expected unit costs. In both cases, the medical centers have concurrently spent more and produced less than would be expected after all things such as their case-mixes, educational programs, salary rates, and other circumstances are compensated for. Last year (FY 87) the loss at Bronx VAMC would have been 11.87% if not capped by our phase-in methods; actual loss was only 3% of the dollars at risk in their budget. At San Francisco the uncapped loss, which would have been 17.87%, was limited at 3%.

The most significant factors at both VAMCs are as follows:

Productivity - The productivity, as measured by the amount of work produced by each direct care employee is significantly lower than the average, and the numbers of direct care personnel exceed the average, for the amount of work.

Medical Care "Work" Produced Per Patient - Work produced for each patient treated is measured by the number of weighted work units for the particular Diagnosis Related Group (DRG) into which the patients' diagnosis falls. At each of these medical centers, the work per patient is less than the average, resulting in fewer total units of work accrued.

Expenditures - The resources expended are above the average for the amount of work produced.

Question: 1B. Although changes in the budget allocations under the RAM of these two VAMCs has been capped in an attempt to limit the impact of changes, both facilities received substantially decreased funds, over $1 million less, in both FYs 1986 and 1987. (i) In cases in which the RAM calls for decreases of this magnitude, what obligation do you believe DM&S has to ensure the facilities' ability to provide quality care to veterans who depend on them for care? (ii) What actions, including any action to lessen the impact of the decreases, have you taken for that purpose in these cases?

Answer: Medical centers have demonstrated that they can lower their cost per work unit while still maintaining and promoting the quality of care. Given the ever-increasing demands upon our system to provide high-technology, quality health care to our aging veteran population, medical centers are required to improve their productivity while at the same time enhancing the level of patient care. While the reductions at San Francisco and the Bronx were significant, the RAM indicates those facilities are more capable of absorbing the reductions than other facilities spending less per unit of workload. The purpose of the "caps" is to prevent undue hardship on a facility and to provide the necessary "phase-in" time to prevent patient care from being compromised.

The goals of providing quality medical care while increasing productivity are not mutually exclusive. Many fine medical centers have been able to become more cost-efficient while at the same time enhancing the quality of care. In recent years, the Quality Management Program has grown and developed at the same time the productivity - enhancing RAM efforts were underway. The program encompasses patient injury control, surgical case review, mortality and morbidity review, continuous monitors, medical record review, utilization review, risk management, Systematic Internal Review (SIR), Systematic External Review Program (SERP), and the Medical District Initiated Peer Review Organization (MEDIPRO). All aspects of the program are monitored at both the regional and central office levels to ensure that quality care is delivered to our veteran patients.

The answer to question 1a(iii) is included in the response to question 14 below.

Question: 14. What management actions are being taken to prevent losses of this magnitude from occurring at these VAMCs in future years.

Answer: Health Resource Management Staff and the Boston Development Center have provided both the Bronx and San Francisco VA Medical Centers with a variety of data about workload, reimbursement, and expenditures, compared with system-wide average data, since the inception of the RAM. Training sessions were conducted for key facility staff explaining how to analyze this data and determine performance strengths and weaknesses. Such analyses are expected to enable the facilities to take corrective actions without jeopardizing the quality of care.

A RAM Assist Team, composed of Region 1 personnel, visited the Bronx in FY87 to identify reasons for their significant RAM losses. Some areas were identified where the Bronx VAMC had costs that were in excess of facilities of comparable size, affiliation and complexity. A Western Region RAM Advisory Team composed of key field service chiefs from around the region as well as a RAM-knowledgeable physician will be visiting VAMC San Francisco in early April, 1988. The team will be doing an in-depth analysis of the causes and possible solutions for the RAM problems at the medical center. They will assist the staff so that case-mix management, workload achievement, and data collection can improve at San Francisco.

In addition, the Veterans Administration has contracted with Price-Waterhouse and Systemetrics to identify the factors that characterize the RAM performance of VA medical centers, since FY 1985. A special focus of the contract will be facilities, including the Bronx and San Francisco, that have been beyond the 1% cap for RAM adjustments each year since FY 1985. The project is slated for completion by September 30, 1988.

Question: 15. Have any studies been undertaken to determine if the decreases in funds to these two facilities has had an impact on the quality of or amount of care they provide, and if so, what have these studies shown?

Answer: The quality of care at the Bronx and San Francisco VA Medical Centers, as validated by the VA's Quality Management Program and external reviews (i.e. Joint Commission on Accreditation of Health Care Organizations, College of American Pathologists, etc.), has not been jeopardized. The challenge to the Medical Centers is to maintain their levels of excellence while balancing workloads and costs in such a way that they accomplish future RAM earnings.

Question: 2A. It is my understanding that the average percentage change in uncapped CMDE$ for FYs 1985-1987 for the Columbia, Missouri, and San Antonio, Texas, VAMCs is 20.55 percent and 19.3 percent, respectively. What analysis has been carried out to determine the reasons for such significant gains and what are the results of those analyses.

Answer: The uncapped changes for Columbia were: 10.9% for FY 1985, 26.6% for FY 1986, and 3.45% for FY 1987. The uncapped changes for San Antonio were: 24.4% for FY 1985, 16.37% for FY 1986, and 7.22% for FY 1987. The average uncapped changes therefore would not be near 20.55% for Columbia or 19.3% for San Antonio, rather an arithmetic mean of the three years yields approximately 10.33% for Columbia and approximately 12.7% for San Antonio. The same analyses as those described in Question 1A. have been conducted on these facilities. The results indicate that these facilities are gaining funding because of the following characteristics:

Productivity - Productivity as measured by the amount of work produced per direct care personnel greatly exceeds the average, resulting in higher numbers of work units than expected.

Medical Care "Work" Produced Per Patient - The work produced for each patient is at least equal, and in San Antonio's case, exceeds the national average, resulting in higher than average numbers of weighted work units accrued for each person treated.

Expenditures - The expenditures for each unit of work are much lower than the national average in most cases.

Question: 2B. As a result of the RAM, the Columbia, Missouri VAMC has received an average increase of approximately $740,000 in FYs 1986 and 1987 and San Antonio has received an average annual increase of $1.36 million over that same period. What actions has Central Office taken regarding the utilization of these large increases?

Answer: The Columbia, MO, VAMC experienced a capped gain of $715,793 for FY 1986 and $759,922 for FY 1987. VAMC San Antonio, TX, experienced a capped gain of $1.3 million for FY 1986 and $1.4 million for FY 1987. Because these facilities had lower than average costs, the utilization of these funds was primarily to enhance the support of existing programs. RAM indicators for both facilities show that they are continuing to be more productive and cost effective than the system average.

There is no attempt to circumvent and thereby undermine the constructive incentives which are fundamental to the Resource Allocation Model. Facilities that do not effectively utilize dollars gained will lose those dollars in the next application of the Resource Allocation Model.

Question: 3. Issue 2 within the document entitled Workbook III distributed at the Quality of Care and RAM Consensus Conference contained a statement that "gaming" was taking place in the areas of ambulatory surgery, passthrough and indirect costs, workloads, collateral visits, and short admissions prior to transfer to tertiary hospitals."

3A. Was agreement reached on this statement and, if not, was the statement modified to include or exclude any area?

3B. If consensus was reached as to whether "gaming" is occurring as a result of the Resource Allocation Methodology (RAM), what actions are being taken to nullify these practices?

Answer: Over 70% of the respondents to Workbook I, which was prepared for the Consensus Conference on RAM and Quality of Care, agreed that "gaming" can have a significant impact on the outcome of the RAM. "Gaming" may be defined as utilization of the rules, parameters, and data systems for the RAM models to create an inappropriate advantage. While improved reporting of costs and workloads is generally perceived to be desirable, manipulation of the data systems solely for the purpose of achieving a more favorable RAM outcome is, of course, undesirable. The "gaming" issue is always clouded by one's perception of the motives behind other's apparent successes. The Consensus Conference was designed to identify those aspects of the RAM which appear to be most susceptible to "gaming" in order to take appropriate steps to refine and improve the models and the reporting systems.

At the Consensus Conference and at the Association of American Medical Colleges (AAMC) debate (attended by VA Senior Managers) a number of RAM features were identified as being susceptible to "gaming":

- Collateral visits
- Indirect costs and workload
- Ambulatory Surgery
- Inappropriate transfers

Much of the discussions regarding "gaming" centered on definitions --

What is the definition of a collateral?

What are the approved ambulatory surgical procedures?

What guidelines exist to help in establishing valid non-RAM costs?

Another avenue of discussion focused on the use of per diems for the transferring facility, the use of Health Care Financing Administration (HCFA) weights for ambulatory surgeries, and not weighting collateral visits as heavily as they have been.

Finally, there was extensive discussion about the process for validating data. Developing an enhanced verification process, the need for improved monitoring of passthrough accounts, improved validation of workloads, and Medical District Initiated Peer Review Organization (MEDIPRO) and use of validation teams were key topics discussed.

A summary of workbooks II and III from the Consensus Conference and AAMC debate revealed that of the 5 listed potential sources of gaming weakness in the RAM, only the transfer definition issues were polarized. Discussion of the remaining 4 issues showed consensus concerning the perception of "gaming." The percent of respondents who believe that the RAM feature was susceptible to gaming was the following:

- Ambulatory surgery, [illegible]% yes
- Passthrough costs and workload: [illegible]% yes
- Collateral visits [illegible]% yes
- Indirect costs and workload [illegible]% yes
- Inappropriate transfer, [illegible]% yes

A summary of the results of Consensus Conference and AAMC Debate of VA Senior Managers showed that there are two aspects to validation:

1. Some weaknesses in the RAM which appear to invite gaming and
2. The competitive elements which are working to [illegible] advantage.

The conferees clearly felt that collaterals, ambulatory surgery and passthroughs were model features which needed improvement but the priorities which they attached to these items were quite varied. Ambulatory surgery was [illegible] on the list of priorities in workbook III, collaterals was [illegible], and indirect costs and passthroughs were below the [illegible] level. Data validation was the third priority.

The DM&S RAM Task Force has taken the results of the "gaming" issue from the Consensus Conference and AAMC debate, and is working on the following recommendations:

Ambulatory Surgery: A prototype ambulatory procedure RAM is currently undergoing test and evaluation and will be implemented as soon as feasible. If the test and evaluation show that an ambulatory procedure RAM is infeasible, the special services RAM should be eliminated.

In the interim, the RAM Task Force is recommending that surgical procedures in the special services RAM should be capped to limit excessive gains from this workload.

Collateral Visits: The RAM Task Force has developed and distributed an issue paper to the field which clearly defines collateral and other non-veteran ambulatory care visits and weights them at a level which discourages gaming. The results of this issue paper and a forthcoming recommendation will be incorporated into the FY 1989 Target Allowance distribution process.

Passthroughs and Indirect Costs: Improved RAM models for passthroughs and indirect costs are being developed and will be implemented over the course of the next three to five years.

Data Validation: The RAM Task Force has a subcommittee making recommendations on strengthening data validation for the RAM by developing a formative data validation program of high visibility and reliability. There are many possible structures to enhance data validation efforts within the Department and these are being pursued. The RAM Task Force's data validation subcommittee will continue to develop screens for data validation to be applied in the FY 1989 RAM target allowance process.

Transfers: The existing transfer DRG policy will be continued in the FY 1989 RAM. However, developmental work will be undertaken relative to a weighting scheme for transfers between VAMC's as well as within a VAMC which reflects the appropriate cost of care in the sending and receiving services.

Question: 4. The copayment for outpatient visits has been increased from $14 to $25, effective October 1, 1987.

4A. What are the data to support this increase?

Answer: PL 99-272 which implemented the means test indicated that the outpatient copayment is to be 20% of the outpatient billing rate; the recently approved FY 88 outpatient visit rate is $127.00 per visit. Twenty percent of this amount is $25.

Question: 4B. Why has the average cost of outpatient care risen to such an extent?

Answer: In FY 86 the outpatient billing rate was computed at $80.00 per visit. Due to a computational error, the FY 87 approved rate was $69.00. It should have been in the neighborhood of $100. When the error was corrected in FY 88, the rate jumped from $69 to $127 per visit. This caused the copayment to increase from $14 to $25.

Question: 4C. What is the estimated additional revenue expected for FYs 1988 and 1989 as a result of the copayment increase?

Answer: Using FY 87 means test collection data as a base, the copayment increase will generate revenues to the Treasury of an additional $400,000 in FY 88. The OMB approved rate for FY 89 when established will increase the copayment again. The income will probably total an amount $440,000 in FY 89.

QUESTION: 5. Briefly provide descriptions of the 25 research projects receiving the highest level of funding in FY 1988 together with information on the amount of funding being provided for with each project.

ANSWER: The 25 research projects receiving the highest level of funding in FY 1988 are as follows:

1. Women's Epidemiological Study -- FY 1988 Costs = $2,372,000 (AOPO): An epidemiology study of any long term adverse health effect manifested in the armed forces of the United States in Vietnam. This study is mandated in P.L. 99-272.

2. Functional Tasks Restored in Paralyzed Man Using Electronic Orthotics -- FY 1988 Costs = $981,289 (RR&D): This is a study to establish a Functional Neuromuscular Stimulation (FNS) system providing paralyzed persons with independent mobility useful functions such as walking, climbing and descending stairs, maneuvering in small spaces and increasing the veteran's level of independence.

3. Evaluation of Effectiveness and Costs of Adult Day Health Care -- FY 1988 Costs = $864,000 (HSR&D): In November 1983, Congress passed PL 98-160, authorizing the VA to provide adult day health care (ADHC) and mandating a study of the medical efficacy and cost effectiveness of ADHC as an alternative to nursing home care. This study is assessing the relative effect of ADHC on patient and caregiver outcomes, health care utilization, and health care costs.

4. Monotherapy of Hypertension -- FY 1988 Costs = $730,000 (MRS): A cooperative study in 15 VA Medical Centers to determine the treatment response patterns of different classes of antihypertensive agents used as monotherapy.

5. Comparative Efficacy of Vascular By-pass Graft Materials in Lower Extremity Revascularization -- FY 1988 Costs = $640,000 (MRS): A cooperative study in 18 VA medical centers to compare several different prosthetic materials for lower extremity by-pass surgery.

6. Stroke Prevention in Non Valvular Atrial Fibrillation -- FY 1988 Costs = $630,000 (MRS): A cooperative study in 16 VA medical centers to study long term low-intensity oral anticoagulation in the reduction of stroke in patients with non-valvular atrial fibrillation.

7. A New Strategy to Preserve the Larynx in Treatment of Advanced Laryngeal Cancer -- FY 1988 Costs = $610,000 (MRS): A cooperative study in 15 VA medical centers to determine whether induction chemotherapy followed by radiation therapy provides an alternative or improved treatment to laryngectomy.

8. Cross Roads Study -- FY 1988 Costs = $609,555 (MRS): An epidemiological study of the long-term adverse health effects of exposure to ionizing radiation from detonation of nuclear devices. This study is in response to the mandate in P.L. 98-160.

9. A Retrospective Cohort Mortality Study of Marine Corps Vietnam Veterans -- FY 1988 Costs = $600,000 (AOPO): A retrospective study which will determine the overall mortality rates as well as the case specific mortality rates of approximately 10,000 marines who served in Vietnam and an equal number of those who served elsewhere.

10. Parietal Cell Acid Secretion -- FY 1988 Costs = $577,000 MRS): Support of a Senior Medical Investigator's laboratory focusing on the physiology of acid secretion in the stomach.

11. Percutaneous Transluminal Coronary Angioplasty (PTCA) -- FY 1988 Costs = $550,000 (MRS): A cooperative study to compare PTCA (Balloon Technique) to medical or surgical therapy.

12. Antiplatelet Therapy After Coronary Artery By-Pass Graft -- FY 1988 Costs = $510,000 (MRS): A cooperative study in 10 VA medical centers to determine the effect of aspirin and other antiplatelet therapy of graft patency in patients after coronary by-pass surgery.

13. Clinical and Laboratory Study of Amputation Surgery and Prosthetic Rehabilitation -- FY 1988 Costs = $488,947 (RR&D): A study to automate fabrication of prostheses, orthoses and orthopedic shoes.

14. Efficacy and Toxicity of Carbamazepine vs. Valproic Acid for Partial Seizures -- FY 1988 Costs = $470,000 (MRS): A cooperative study to compare carbamazepine with valproic acid in the treatment of two well defined seizure types.

15. A Randomized Study of Prostatic Surgery for Moderately Symptomatic Benign Prostatic Hyperplasia (BPH) in Elderly Men -- FY 1988 Costs = $450,000 (MRS): A cooperative study in 9 VA medical centers to compare the effectiveness of transurethral resections of the prostate (TURP) with medical treatment in moderately symptomatic BPH in men.

16. Protein-Calorie Therapy in Combination with Anabolic Steroids in Alcoholic Hepatitis -- FY 1988 Costs = $447,000 (MRS): A cooperative study in 8 VA medical centers to compare the efficacy of anabolic steroid therapy and nutritional supplements in the treatment of alcoholic hepatitis.

17. Structure and Function of Gut and Brain Peptides -- FY 1988 Costs = $442,437 (MRS): Support at a Senior Medical Investigator's laboratory focusing on purification, sequencing and determination of the biological activities of hormonally active peptides found in the brain and gut.

18. Cooperative Clinical Trial of Sclerotherapy for Esophageal Varices in Alcoholic Liver Disease -- FY 1988 Costs = $420,000 (MRS): A cooperative study in 11 VA medical centers to evaluate the effect of sclerotherapy for patients with esophageal varices due to alcoholic liver disease.

19. Asymptomatic Carotid Stenosis: Etiological Importance in Development of Stroke -- FY 1988 Costs = $380,000 (MRS): A cooperative study in 14 VA medical centers to evaluate the role of carotid in endarterectomy versus aspirin therapy alone in the treatment of asymptomatic carotid stenosis and reducing serious neurologic symptoms.

20. Schizophrenia Research Center -- FY 1988 Costs = $378,515 (MRS): A center to study the biological basis of schizophrenia.

21. Use of Analogs of Hypothalamic Hormones (and other Peptides) in Cancer -- FY 1988 Costs = $375,316 (MRS): Support at a Senior Medical Investigator's Laboratory focusing on the identification, synthesis, and clinical applications of hormone analogs in the treatment of cancer.

22. Studies of the Pathogenesis and Prevention of Diabetes Mellitus -- FY 1988 Costs = $359,431 (MRS): Support at a Senior Medical Investigator's Laboratory focusing on the physiological nature of Diabetes and its possible prevention.

23. Brain Metabolism and Relationships of the Extracellular Fluid in the Brain -- FY 1988 Costs = $347,086 (MRS): Support at a Senior Medical Investigator's Laboratory focusing on the physiology of the brain with particular reference to microcirculation and the blood brain barrier.

24. Normative Aging Study -- FY 1988 Costs = $315,000 (MRS): This is an interdisciplinary and longitudinal study of the aging process. Objectives of the study are to: (a) characterize the biomedical and psychosocial parameters of normal aging, (b) define the incidence and precursors of the diseases of aging, and (c) examine the influence of certain aspects of lifestyle and major life events on the aging process.

25. Pathogenesis and Treatment of Thrombosis and Hemorrhagic Diseases -- FY 1988 Costs = $244,000 (MRS): A study to improve the diagnosis understanding and treatment of bleeding and clotting disorders which contribute heavily to cerebral vascular and heart diseases.

KEY

AOPO = Agent Orange Projects Office

RR&D = Rehabilitation Research and Development

HSR&D = Health Services Research and Development

MRS = Medical Research Service

Question: 6A. How many inpatient beds, broken down by facility and service area (such as ICU, medical, surgical, psychiatric), within DM&S were closed, in each of FYs 1986 and 1987 and in the first quarter of FY 1988, as a result of the shortage of nurses or other personnel?

Answer: The following numbers of beds were closed due to nursing staff recruitment problems for the time periods requested:

9/30/86 - 205
9/30/87 - 1,890
12/31/87 - 1,877

It should be noted that the closure of these beds (about 2 percent of VA operating beds) did not result in veterans not being furnished care. All eligible veterans who apply for and need care are being served.

See Attachments for detail.

Beds Closed Due to Nursing Staff Recruitment Problems as of 9/30/86

Facility	Total Beds	Medical Beds	Surgical Beds	Med/Surg Beds	Psych Beds	IIU Beds	NHCU Beds
West Haven, CT	4					4	
Washington, DC	57	17	40				
Durham, NC	52		52				
East Orange, NJ	39			39			
Lyons, NJ	10					10	
Denver, CO	6					6	
Salt Lake City, UT	38	12			12		14
Martinez, CA	3					3	
Total	209	29	92	39	12	23	14

Attachment #1

Beds Closed Due to Nursing Staff Recruitment Problems as of 9/30/87

Facility	Total Beds	Medical Beds	Surgical Beds	Intermed Beds	Psych. Beds	ICU Beds	Other Beds
Northampton, MA	39	6		13	20		
Boston, MA	125	50	62	2	11	+	
Brooklyn, NY	38		38				
Syracuse, NY	36		28			8	
Manchester, NY	53	31				2	NHCU 5
West Haven, CT	152	88	54			10	
Northport, NY	62	18	42			2	
Brockton/WR MA	95	42	26			3	SCI 24
Albany, NY	59	59					
Newington, CT	29		29				
Bedford, MA	89			49	40		
Bronx, NY	6					6	
New York, NY	1					1	
White River Jct., VT	8	4	4				
Durham, NC	101	32	61			8	
East Orange, NY	30	30					
Lyons, NJ	75				59	16	
Wilmington, DE	74		40				Neurology 34

Beds Closed Due to Nursing Staff Recruitment Problems as of 9/30/87

Facility	Total Beds	Medical Beds	Surgical Beds	Intermed Beds	Psych. Beds	ICU Beds	Other Beds
Washington, D.C.	70	27	40			3	
Butler, PA	74	74					
Ft. Howard, MD	4	4					
Baltimore, MD	50	39	11				
Augusta, GA	67		55			12*	
Atlanta, GA	88	34	54				
Lexington, KY	5					5	
Memphis, TN	3					3	
Nashville, TN	12				2	10	
Cincinnati, OH	36	4	12		8	3	Oncology 9
Ann Arbor, MI	57	51				6	
Madison, WI	4					4	
Chicago (LS) IL	10					10	
Cleveland, OH	6					6	
Kansas City, MO	4					4	
Salt Lake City, UT	35	16	9			2	Detox 8
Palo Alto, CA	65				30	5	Neurology 30

Beds Closed Due to Nursing Staff Recruitment Problems as of 9/30/87

Facility	Total Beds	Medical Beds	Surgical Beds	Intermed Beds	Psych. Beds	ICU Beds	[a] Other Beds
West LA, CA	116		30	30[a]		11	NHCU 45
Roseburg, OR	23				23		
Loma Linda, CA	4					4	
San Francisco, CA	68	10	54			4	
Shreveport, LA	42	36				6	
Temple, TX	5					5	
Total	1890	594	683	109	191	158	155

Attachment #2

Beds Closed Due to Nursing Staff Recruitment Problems as of 12/31/87

Facility	Total Beds	Medical Beds	Surgical Beds	Psych Beds	ICU Beds	Intermed Beds	Other Beds
Northampton, MA	39	6		20		13	
Boston, MA	125	50	62	11		2	
Brooklyn, NY	38		38				
Syracuse, NY	34		28			6	
Manchester, NY	53	31			2	15	NHCU 5
West Haven, CT	171	79	65		11		Neurology 16
Brockton, BR MA	52	30					SCI 22
Newington, CT	20		20				
Bedford, MA	89			40		49	
Bronx, NY	6				6		
New York, NY	4				3		
Albany,NY	-	-					
Durham, NC	101	32	61		8		
East Orange, NJ	50	50					
Lyons, NJ	75			59	16		
Wilmington, DE	40		40				
Washington, D.C.	70	27	40		3		
Butler, PA	51	51					

Beds Closed Due to Nursing Staff Recruitment Problems as of 12/31/87

Facility	Total Beds	Medical Beds	Surgical Beds	Psych Beds	ICU Beds	Intermed Beds	Other Beds
Asheville, NC	2				2		
Ft. Howard, MD	4	4					
Baltimore, MD	45	34	11				
Augusta, GA	67		55		12		
Atlanta, GA	68	20	48				
Lexington, KY	5				5		
Memphis, TN	3				3		
Nashville, TN	12				12		
Cincinnati, OH	50	–	43		4		Oncology 3
Indianapolis, IN	31		31				
Ann Arbor, MI	22	15			6		
Madison, WI	42	24	4		6		Neurology 8
Chicago, (LS) IL	6				6		
Cleveland, OH	6				6		
Columbia, MO	4				4		
Salt Lake City, UT	31	16	9		2		Detox 4

Beds Closed Due to Nursing Staff Recruitment Problems as of 12/31/87

Facility	Total Beds	Medical Beds	Surgical Beds	Psych Beds	ICU Beds	Intermed Beds	Other Beds
Palo Alto, CA	36				4		Neurology 32
West LA, CA	127	30	30		15	30	NHCU 22
Roseburg, OR	23			23			
Loma Linda, CA	84	30			4		NHCU 50
San Francisco, CA	60	10	16		3		
Seattle, WA	8				8		
Shreveport, LA	42	36			6		
Houston, TX	70		33	37			
Temple, TX	5				5		
Total	1077	580	568	190	164	115	162

Attachment #3

Question: 6B. Based upon the VA's workload measurement system, how many nursing-care-hours per patient day are required by veteran-patients in each such service area?

Answer: The VA's workload measurement system indicates that the following nursing-care-hours per patient day are required in each service area for FY 1987.

ICU	21.99	
Medical	3.71	
Intermediate	3.71	
Surgical	4.90	
Psychiatric	*	(See footnote in question 6C.)
Nursing Home	3.72	

The figures in this section were derived from the nurse staffing guidelines for the appropriate bed sections. In each area, patients were categorized into groups. Using industrial engineering methodologies, time values were established for each group which is connected to hours of nursing care needed by each patient within each group. These time values are not "requirements," however. They are intended to assist hospital managers in staffing nursing units.

Question: 6C. How many nursing-care-hours per patient are being provided in such service area?

Answer: In FY 87, the average nursing hours provided per patient day, by bed section, were:

ICU	19.66
Medical	3.53
Intermediate	3.53
Surgical	4.78
Psychiatric	*
Nursing Home	3.29

* Guideline recently revised; insufficient data available to provide management information.

Question: 6D. How many nursing-care-hours are budgeted in each service area?

Answer: The data are not available in this fashion. Nursing-care-hours are not budgeted centrally for each service area.

Question: 6E. When were the standards on which the workload measurement system is based last reviewed and when were they last revised?

Answer: For the past two years the workload measurement system used to assign weighted work units was based on 1984 data. This has been updated and for the current year, 1986 is the base for the measurement scores. It is expected that the data will be updated biennially because changes in a single year have not proven to be significant.

Question: 7. Which hospital services (such as laboratory, housekeeping, and radiology) utilize workload measurement systems for staffing purposes?

Answer: The following hospital programs and services are currently covered by staffing guidelines. These guidelines do not prescribe a table of organization for VAMCs or mandate a rigid standard for staffing the various services. Rather, the guidelines provide hospital managers with another management tool to assist them in equitably distributing resources.

- Nursing Service
  - Medical
  - Surgical
  - Nursing Home Care
  - Intermediate
  - Critical Care
  - Psychiatric
- Medical Administration Service
- Building Management Service
  - Sanitation
  - Textile Care
- Dietetic Service (Except Clinical Dietitians)
- Engineering Service
  - Operations Section
  - Maintenance and Repair
  - Biomedical Engineering
- Laboratory Service
- Supply Service (Except Supply Processing and Distribution)
- Pharmacy Service
- Rehabilitation Medicine Service
- Social Work Service
- Radiology Service
- Fiscal Service
- Personnel Service
- Security Service
- Psychology Service
- Respiratory Therapy
- Nuclear Medicine Service
- Recreation Service
- Prosthetics Service
- Audiology and Speech Pathology
- Library Service
- EEG
- Medical Media Production Service
- EKG
- Cardiac Catheterization
- Sickle Cell
- Dialysis

Question: 8A. Taking into account special rates already approved, what is the average starting salary in the VA for RNs, LVNs, physical therapists, occupational therapists, and pharmacists as compared to the average starting salaries at Department of Defense and Public Health Service facilities, university hospitals, and all hospitals?

8B. In the case of each of these occupations, what is the earning potential in present salary terms for individuals who stay within their job classification as compared to the comparable earning potential at Department of Defense and Public Health Service facilities, university hospitals, and all hospitals?

Answer: In the table below, the first column shows both the VA average starting salary (first step of the entry grade) and the average earning potential salary (step 10 of the journeyman grade) for each occupation. The averages for each occupation are the sum of the entry/top rates for all DM&S facilities (including those on special rates) divided by the total facilities (168) in DM&S. With respect to the average top rates it should be noted that movement from step 1 to step 10 of a grade generally takes 18 years for VA occupations.

In the second column, we have shown the latest nationwide survey results obtainable for four of the occupations. (We could not find similar information for physical therapists, nor could we break out University hospitals from the survey reports.)

It should be noted that this may be an invalid comparison. The available nationwide occupational salary information does not adequately compare to VA salary information that is based on facility-available, geographic-based rates.

We are unable to provide information about Department of Defense and Public Health Service rates. Our contact with these agencies revealed they could not collect and compute such information on such short notice.

AVERAGE SALARIES FOR VA AND NATIONWIDE HOSPITALS

OCCUPATION	LEVEL	VA SPECIAL & REGULAR RATE	NATIONWIDE HOSPITALS
PHARMACIST	GS-9, STEP 1 (ENTRY)	$24,581	
	GS-11, STEP 10 (TOP)	38,143	$34,143 *
PHYSICAL THERAPIST	GS-7, STEP 1 (ENTRY)	20,595	
	GS-9, STEP 10 (TOP)	29,408	
OCCUPATIONAL THERAPIST	GS-6, STEP 1 (ENTRY)	17,257	21,945 **
	GS-9, STEP 10 (TOP)	30,061	29,505 **
REGISTERED NURSE	JUNIOR, STEP 1 (ENTRY)	19,772	$20,964***
	ASSOCIATE, STEP 1 (ENTRY)	21,359	
	INTERMEDIATE, STEP 10(TOP)	36,431	
LICENSED PRACTICAL NURSE	GS-3, STEP 1 (ENTRY)	13,099	$14,856***
	GS-5, STEP 10 (TOP)	16,807	

*Average salary for hospital staff pharmacists reported in the Drug Topics Magazine, October 5, 1987. (Includes all levels of experience but excludes supervisors and managers.)

**Average entry and top salaries for occupational therapists with bachelor's degrees provided by American Occupational Therapy Association.

***Average starting salary for RNs and LPNs rates reported in the American Journal of Nursing, January, 1988.

Question: 9A. How many requests for special salary rates were approved in FY 1987 and have been approved in FY 1988 to date?

Answer: There were 352 approvals in FY 1987 and 205 approvals in FY 1988 through January 30, 1988, for new or increased special salary rates.

Question: 9B. How many were not approved?

Answer: There were 6 disapprovals in FY 1987 and 12 disapprovals in FY 1988 to date. Even though disapproved, facility management may resubmit a request for approval whenever additional supporting documentation is available.

Question: 9C. How many requests are currently pending?

Answer: As of January 30, there are 156 requests pending. Approximately one half of these are requests for new rates, while the remainder are for increases in existing special rates.

Question: 9D. Please provide a list of all requests and their disposition for special-rate requests received since October 1, 1987.

Answer: In the period from October 1, 1987, to January 30, 1988, we have received 145 requests from VA medical facilities for new or increased special salary rates. Some of these requests cover more than one facility. Of the 145 requests, 36 have been approved and put into effect, 6 have been disapproved, and 103 are pending. Lists of these requests, according to their status as of January 30, are attached.

Approved
Special Rates Requests
(Received Between 10/1/87 and 1/30/88)

State	Facility	Occupation
AR	LITTLE ROCK	HEART-LUNG MACHINE TECH
CA	LOMA LINDA	LICENSED VOCATIONAL NURSE
CA	LONG BEACH	MED RECORD TECH - TUMOR REG
CA	SAN FRANCISCO, MARTINEZ	REGISTERED RESPIRATORY THER
CA	SAN FRANCISCO, MARTINEZ	CERTIFIED RESIPIRATORY THER
CA	SEPULVEDA	REG RESPIRATORY THER
CT	WEST HAVEN	PHYSICAL THERAPIST
DE	WILMINGTON	REGISTERED NURSE
MA	BEDFORD	POLICE OFFICER
MA	BOSTON MC + OPC	PHYSICAL THERAPIST
MA	BOSTON OPC	POLICE OFFICER
MD	FORT HOWARD	PHYSICAL THERAPIST
MN	ST. CLOUD	LICENSED PRACTICAL NURSE
NM	ALBUQUERQUE	HEART-LUNG MACHINE TECH
NY	NEW YORK + BROOK + BRONX	LICENSED PRACTICAL NURSE
NY	NY, BROOKLYN, BRONX -	RESP THER - CERT & REG
OH	DAYTON	PHYSICAL THERAPIST
OK	OKLAHOMA CITY	PHARMACIST
OK	OKLAHOMA CITY	DIAGNOSTIC RADIOLOGIC TECH
OR	PORTLAND	REGISTERED NURSE
OR	PORTLAND	MEDICAL RECORD LIBRARIAN
OR	ROSEBURG	LICENSED PRACTICAL NURSE
PA	PITTSBURGH (HIGHLAND DR)	POLICE OFFICER
PA	PITTSBURGH (UD + HD)	LICENSED PRACTICAL NURSE
PA	PITTSBURGH (UNIVERSITY DR)	POLICE OFFICER
PA	WILKES-BARRE	PHYSICAL THERAPIST
SC	CHARLESTON	PHYSICAL THERAPIST
TX	AMARILLO	PHARMACIST
TX	BONHAM	PHYSICAL THERAPIST
TX	DALLAS	PHARMACIST
TX	HOUSTON	PHARMACIST
WA	SEATTLE	PHARMACIST
WA	SEATTLE	DIAGNOSTIC RADIOL TECH
WI	MADISON	REGISTERED NURSE - ICU ONLY
WI	MADISON	REGISTERED NURSE
WI	MILWAUKEE	PHYSICAL THERAPIST

Disapproved
Special Rates Requests
(Received Between 10/1/87 and 1/30/88)

State	Facility	Occupation
AR	LITTLE ROCK	PHARMACIST
CA	LOMA LINDA	OCCUPATIONAL THERAPIST
CA	WLA, L BEACH, SEPULV	ORTHOTIST/PROSTHETIST
NC	ASHEVILLE	PHYSICAL THERAPIST
PA	ALTOONA	PHARMACIST
TX	KERRVILLE	PHARMACIST

Pending
Special Rates Requests
(Received Between 10/1/87 and
1/30/88)

State	Facility	Occupation
AL	TUSCALOOSA	PHARMACIST
AZ	PHOENIX	REGISTERED NURSE
AZ	PHOENIX	LICENSED PRACTICAL NURSE
AZ	TUCSON	PHARMACIST
AZ	TUCSON	PHYSICAL THERAPIST
CA	FRESNO	PHARMACIST
CA	LOMA LINDA	REGISTERED NURSE
CA	LOMA LINDA	MEDICAL TECHNOLOGIST
CA	LOMA LINDA	REGISTERED RESPIRATORY THER
CA	LOMA LINDA	DENTAL HYGIENIST
CA	LOMA LINDA	PHYSICAL THERAPIST
CA	LOMA LINDA	PHARMACIST
CA	LOMA LINDA	DIAG RADIOLOGIC TECH
CA	LONG BEACH	POLICE OFFICER
CA	LOS ANGELES OPC	POLICE OFFICER
CA	LOS ANGELES OPC	MEDICAL TECHNOLOGIST
CA	MARTINEZ	MEDICAL TRANSCRIPTIONIST
CA	PALO ALTO	BLIND REHABILITATION SPEC
CA	SEPULVEDA	POLICE OFFICER
CA	SEPULVEDA	MEDICAL TECHNOLOGIST
CA	WEST LOS ANGELES	POLICE OFFICER
CA	WEST LOS ANGELES	HEART-LUNG MACHINE TECH
CA	WEST LOS ANGELES	DIAGNOSTIC RADIOLOGIC TECH
CA	WEST LOS ANGELES	MEDICAL TECHNOLOGIST
CA	WEST LOS ANGELES	9 FWS TRADES
CT	NEWINGTON	LICENSED PRACTICAL NURSE
CT	WEST HAVEN	BLIND REHAB SPEC
DC	WASHINGTON	MEDICAL TECHNOLOGIST
DC	WASHINGTON	REGISTERED NURSE
FL	BAY PINES	PHARMACIST
FL	BAY PINES	PHYSICAL THERAPIST
FL	TAMPA	PHYSICAL THERAPIST
GA	AUGUSTA	LICENSED PRACTICAL NURSE
ID	BOISE	OCCUPATIONAL THERAPIST
ID	BOISE	PHARMACIST
IL	CHICAGO (4MC'S,RO,SD,DPC)	CLERICAL
KY	LEXINGTON	PHARMACIST
LA	NEW ORLEANS	NURSE ANESTHETIST
MA	BEDFORD	REG RESPIRATORY THER +RT
MA	BEDFORD	LICENSED PRACTICAL NURSE
MA	BEDFORD	MEDICAL CLERK
MA	BOSTON MC	NURSING ASSISTANT
MA	BOSTON MC	DIAGNOSTIC RADIOLOGIC TECH
MA	BOSTON MC	ULTRASOUND TECH
MA	BOSTON MC	HEALTH TECH (RADIOL MRI)
MA	BOSTON MC	OCCUPATIONAL THERAPIST
MA	BOSTON OPC	NURSING ASSISTANT
MA	BOSTON OPC	LICENSED PRACTICAL NURSE
MA	BOSTON OPC	MEDICAL CLERK
MA	BROCKTON & W ROXBURY	POLICE OFFICER
MA	BROCKTON/WEST ROXBURY	LICENSED PRACTICAL NURSE
MA	BROCKTON/WEST ROXBURY	MEDICAL CLERK
MD	PERRY POINT	PHYSICAL THERAPIST
MI	ALLEN PARK	PHARMACIST
MI	ANN ARBOR	REGISTERED NURSE
MI	ANN ARBOR	NURSE ANESTHETIST
MI	ANN ARBOR	PHARMACIST

MN	MINNEAPOLIS	MEDICAL RECORD TECHNICIAN
MO	COLUMBIA	PHARMACIST
MO	ST. LOUIS	PHARMACIST
MS	JACKSON	PHARMACIST
NC	DURHAM	DIAGNOSTIC RADIOLOGIC TECH
NH	MANCHESTER	PHARMACIST
NH	MANCHESTER	REGISTERED NURSE
NJ	EAST ORANGE	POLICE OFFICER
NJ	EAST ORANGE + LYONS	MEDICAL TECHNOLOGIST
NJ	EAST ORANGE + LYONS	PHYSICAL THERAPIST
NJ	OEAST ORANGE + LYONS	OCCUPATIONAL THERAPIST
NY	ALBANY	DIAAGNOSTIC RADIOLOGIC TECH
NY	ALBANY	LICENSED PRACTICAL NURSE
NY	BATH	REGISTERED NURSE
NY	BROOKLYN + NEW YORK	DIETETIC TECHNICIAN
NY	BROOKLYN, BRONX, NEW YORK	DIETITIAN
NY	CASTLE POINT	REGISTERED NURSE
NY	NEW YORK,BROOKLYN,BRONX	REGISTERED NURSE
OH	CHILLICOTHE	PHARMACIST
OH	CLEVELAND	THERAPEUTIC RADIOLOGIC TECH
OH	CLEVELAND	POLICE OFFICER
OR	PORTLAND	DIAGNOSTIC RADIOLOGIC TECH
OR	PORTLAND	OCCUPATIONAL THERAPIST
OR	ROSEBURG	PHARMACIST
PA	LEBANON	REGISTERED NURSE
PA	PHILADELPHIA	DIAGNOSTIC RADIOLOGIC TECH
PA	PITTSBURGH (HD + UD)	MEDICAL CLERK
PA	PITTSBURGH (UD)	NURSE ANESTHETIST
RI	PROVIDENCE	DIAGNOSTIC RADIOLOGIC TECH
RI	PROVIDENCE	REGISTERED NURSE
TN	MURFREESBORO	PHARMACIST
TN	NASHVILLE	REGISTERED NURSE
TN	NASHVILLE	REGISTERED NURSE - CCU ONLY
TN	NASHVILLE	PHARMACIST
TX	BONHAM	OCCUPATIONAL THERAPIST
TX	HOUSTON	LICENSED VOCATIONAL NURSE
TX	HOUSTON	REGISTERED NURSE
TX	MARLIN	PHYSICAL THERAPIST
TX	MARLIN + WACO	PHARMACIST
TX	SAN ANTONIO	REGISTERED NURSE
TX	SAN ANTONIO (CORPUS OPC ONLY)	PHYSICAL THERAPIST
TX	TEMPLE	PHARMACIST
TX	TEMPLE	PHYSICAL THERAPIST
VA	RICHMOND	HEALTH TECHN (PERFUSIONIST)
WA	SEATTLE	REGISTERED NURSE
WI	MADISON	LICENSED PRACTICAL NURSE

Question: 96. For each job classification within DM&S, please state how much was expended on special rates in FY 1987 and has been spent in FY 1988 to date?

Answer: The Department of Medicine and Surgery established a special salary rate consortium in December, 1986 to expedite the review of requests, and to supply centralized funding to the extent that field facilities need assistance and funding is available. The additional costs of funding these requests have been tracked since the consortium's inception. The attached summary provides special rate funding data by job category.

Special Salary Rates Analysis
From 12/4/86 to 9/30/87

Region	LPN	RN	Pharmacist	Physical Therapist	Clerical	Radiology Tech	Occupation Therapist	Nuclear Med Tech	Medical Tech	Police Officer	Pharmacy Tech	Other*	Total
1	2,065,723	11,429,369	855,636	95,323	2,504,878	384,953	272,795	2,793		148,072		321,994	18,081,536
2	678,792	3,746,632	649,239	60,165	869,463	2,242	7,618			69,564			6,083,715
3		888,101	1,151,196	22,613		23,868	85,238			78,212			2,249,228
4	303,972	2,478,245	1,397,319	159,638			59,517			307,272			4,705,963
5	400,550	2,034,818	120,060	50,161	144,642	42,224	13,482				77,820	39,161	2,922,918
6	4,387,220	11,245,012	777,847	258,238	4,565,012	392,894	129,462	53,846	210,497	97,356	268,432	166,447	22,552,263
7		902,421	767,890	34,689	489,120	21,055						4,140	2,219,315
TOTAL	7,836,257	32,724,598	5,719,187	680,827	8,573,115	867,236	568,112	56,639	210,497	700,476	346,252	531,742	58,814,938

* Includes Histopathology Techs, Hemodialysis Techs, Electroencephalographic Techs, Heart Lung Machine Techs, Respiratory Techs, Dental Hygienists Ultra-Sound Techs, Medical Record Techs, Pathology Techs, Dental Assistants and Medical Record Librarians.

Special Salary Rates Analysis
10/1/87/ - 2/18/88
FY 1988

Region	LPN	RN	Pharmacist	Physical Therapist	Clerical	Radiology/ Tech	Occupation Therapist	Nuclear Med Tech	Medical Tech	Police Officer	CRTT/ RTT	Other	Total
1	3,434,498	5,627,352	263,268	110,706		292,623				133,914	204,932	298,108	10,365,401
2	303,337	2,277,865	346,064	41,516		207,078	8,988			75,827		16,308	3,276,983
3	73,185	547,927	460,784	75,362			12,546						1,169,804
4	673,111	1,018,866	547,146	83,695		11,973						7,593	2,342,384
5	138,767	58,402	144,584			121,397		9,052				31,004	503,206
6	577,739	1,122,671	220,636	7,070		137,392	3,820	33,486	135,725	48,800	159,493	115,395	2,562,227
7	403,447	987,212	276,863	4,530		132,263	4,494			34,170			1,842,979
TOTAL	5,604,084	11,640,295	2,259,345	322,879		902,726	29,848	42,538	135,725	292,711	364,425	468,408	22,062,984

Question: 10. What are the vacancy and turnover rates among ward secretaries?

Answer: Although there is no central data base from which the above information can be obtained, a telephone survey of 15 medical centers revealed the following:

Facility	Assigned Ceiling (FTEE)	Turnover Rate (%)	Current Position Vacancies (as of 2/12/88)
Albany, NY	29.0	11.0	3
Boston, MA	37.8	127.0	2
Bronx, NY	61.0	25.0	9
Baltimore, MD	15.0	73.0	0
Wilmington, DE	10.5	130.0	1
Memphis, TN	45.1	56.1	4
Atlanta, GA	28.0	36.4	7
Ann Arbor, MI	26.6	71.0	2
Indianapolis, IN	37.9	52.9	0
Denver, CO	33.0	7.0	3
Fargo, ND	12.0	10.0	2
Roseburg, OR	19.5	25.0	5
San Antonio, TX	34.5	35.0	1
San Diego	34.0	38.0	2
San Francisco	26.0	92.0	2

Question: 11. The Preliminary Report of the Task Force on Recruitment and Retention of Non-Physician Health Care Workers dated July 1987 contained a number of recommendations relating to resolving personnel problems being experienced by the agency.

A. Please describe the agency's plans to implement these recommendations and provide a timetable for carrying out each recommendation that is to be implemented?

B. Please provide the same information for any other actions (not covered in the report) being planned or undertaken to deal with health care recruitment and retention problems.

Answer: To Questions 11A and 11B: The Department of Medicine and Surgery views its recruitment and retention problems from the perspective that an integrated approach will best serve to address the difficulties being experienced on a near-national basis in a number of occupational categories. Therefore, all actions that have occurred or are in process, even if not specifically recommended in the Recruitment and Retention Task Force report, are viewed as part of a total strategy for remedying current staffing shortages and avoiding future shortages. Within this context, the following actions have occurred:

- o Approximately 555 Special Salary Rate authorizations had been granted at 149 facilities through January 30, 1988. These include authorizations for Registered Nurses, Pharmacists, Physical Therapists, Licensed Practical/Vocational Nurses, Radiology Technicians, and others.

- o Authority was delegated to facility directors on October 13, 1987, to approve Saturday Premium Pay when needed for recruitment and retention of nurses. Use of this benefit had previously required VA Central Office approval.

- o The Office of General Counsel affirmed in October 1987, that the Administrator may, in the interest of recruitment and retention, pay overtime to nursing and certain other T.38 personnel at rates in excess of 1.5 times the actual hourly rate and without regard to the Intermediate Grade/Step 1 cap. This affirmation offsets the need to request a General Counsel opinion on this subject as had been recommended by the Recruitment and Retention Task Force.

- o The Tuition Support Program was initiated in FY 1987 and approximately $2.5 million in support was provided to more than 8900 employees in 15 occupations. As recommended by the Task Force, this program was expanded for FY 1988 and will distribute $5.0 million to an estimated 17,000 employees. Further expansion is included in the President's 1989 Budget which includes over $10 million for tuition support for an estimated 31,000 employees.

o Expanded funding was sought and appropriated for the Health Scholarship Program. The FY 1988 budget authorizes $7.0 million for this program and the President's 1989 Budget includes and additional $137,000 over the FY 88 level. Such an expansion was included among the Task Force recommendations.

o In addition to expanded funding, the VA has requested legislative authority to broaden the occupational coverage of the Scholarship Program to include physical therapists and other personnel providing direct health care. This legislation, recommended by the Task Force, is currently pending.

o Legislation, supported by the agency, is pending that will enable the VA to pilot test various alternative pay, personnel management, and benefits practices in the interest of improving its competitive recruitment and retention stance, particularly in the health care community. The Task Force report recommended similar legislation.

o Guidance in the form of a DM&S Circular now undergoing agency review, has been developed to provide specific information to field facilities on the establishment of not-for-profit, and on a less expansive basis, for-profit, child care centers. This guidance explains the statutory authority for the provision of space by the VA, as well as requirements for ensuring that enrollment priority is given to children of VA, other Federal Government, and affiliated university employees. The Recruitment and Retention Task Force specifically recommended the issuance of such guidance, as well as the investigation of expansion of the authorities impacting child care centers.

o A variety of regional and local initiatives are being monitored for "export," as appropriate, throughout the system. These efforts are being formalized into a clearinghouse function, recommended by the Task Force, that will serve to ensure the broadest dissemination of information possible.

o Preliminary discussions have been held with various agency personnel, and general inquiries have been made about available outside services, in preparation for the development of an Agency Image Building Campaign as recommended by the Task Force.

o The second Survey of Health Occupational Staff has been conducted and the data are being analyzed. The data will be used to assist in the evaluation of recruitment and retention trends throughout the Department. A preliminary report on registered nurses, licensed practical/vocational nurses, nursing assistants, pharmacists, physical therapists, and occupational therapists is expected to be available in March 1988. This data will assist in the development of the expanded data base, recommended by the Task Force, to assist in the analysis of staffing and potential shortages.

Finally, the 24 recommendations in the Preliminary Report of the Recruitment and Retention Task Force have been analyzed, and approximately 150 initial steps for implementation identified. These steps define the first actions necessary for implementation of the recommendations. Full implementation of some of the recommendations may extend into 1992. The identified implementation steps are currently being formulated into an Action Plan that will identify responsible officials and define the anticipated timetable for implementation of each action. The Plan requires input from Departments and Staff Offices throughout the Agency to ensure that all action items and resources needed are identified.

Question: 12. How much was spent on beneficiary travel in each of FYs 1986 and 1987 and has been spent in FY 1988 to date?

Answer: The actual costs for beneficiary travel for FY 1986 are $106,559,000; for FY87 are $83,865,000 and for FY 1988 (from October 1, 1987 through January 31, 1988) are $19,854,000.

Question: 13A. Please provide lists of the VA facilities which have implemented hospital-based home-care programs and those which have implemented adult day-care programs.

Answer: Listed below are the VA-facilities which have implemented VA-operated Adult Day Health Care Programs (ADHC) and the VA-facilities which have been granted authority to contract for Adult Day Health Care services (CADHC):

VA-Operated
ADHC Programs

Albany
Boston OPC
Brooklyn
Buffalo
Butler
Daytona Beach OPC
Miami
Dayton
Milwaukee
North Chicago
Minneapolis
Palo Alto
Portland
Little Rock
San Antonio

Contract
ADHC Programs

Manchester
New York
Syracuse
Chicago (West Side)
Hines
Grand Island
Kansas City
Minneapolis
Martinez
Reno
San Diego
San Francisco
Seattle
West Los Angeles
Dallas
New Orleans
Phoenix
Prescott
Tucson

The following medical centers have established hospital-based home-care (HBHC) programs:

Albany
Albuquerque
Allen Park
Asheville
Atlanta
Baltimore
Batavia
Bay Pines
Birmingham
Boston
Bronx
Buffalo
Brooklyn
Butler
Chicago Lake Side
Chicago West Side
Cleveland
Columbia, MO
Dallas
Danville
Dayton
Denver
Durham
East Orange
Fort Wayne
Gainesville
Hines
Houston
Indianapolis
Iowa City
Kansas City
Lexington
Little Rock
Long Beach
Madison
Manchester
Marion, IL
Martinez
Memphis
Miami
Milwaukee
Minneapolis
New Orleans
New York
Newington
North Chicago
Northport
Oklahoma City
Palo Alto
Philadelphia
Phoenix
Pittsburgh (U.D.)
Portland
Providence
Richmond
Salt Lake City
San Antonio
San Diego
San Francisco
San Juan
Seattle
Sepulveda
Shreveport
St. Louis
Syracuse
Tampa
Tucson
Washington, DC
West Haven
West Los Angeles
White River Junction
Wichita
Wilkes Barre

Question: 13B. What is the average daily census of veterans in each of those programs?

Answer: The average daily census for the VA-operated ADHC Program was 194 in FY 1987. The average daily census for the Contract ADHC Program was 12 in FY 1987. The contract program began in June 1987.

The HBHC Program maintained an average daily census of 3,411 patients in FY 1987.

Question: 13C. Please provide lists of other VA facilities which have indicated in MEDIPP a plan to establish either of these programs and their timetables for doing so.

Answer: The following VA facilities have indicated in MEDIPP an interest in Adult Day Health Care (ADHC). Timetables for implementation have not been firmly established: Bronx (through contract); Northport; Wilkes-Barre; Pittsburgh (UD); Washington; Richmond; Atlanta; Augusta; Birmingham; Montgomery; Gainesville; Lake City; Tampa; St. Louis; Boise, Fresno and Reno.

MEDIPP plans for HBHC have been developed at the following medical centers:

Facility	Year
Ann Arbor	1989
Alexandria	1989
Augusta	1990
Charleston	1989
Clarksburg	1990
Columbia, SC	1991
Dublin	1991
Fresno	1989
Jacksonville, OPC	1989
Lake City	1989
Mountain Home	1990
Nashville	1989
Saginaw	1990
San Jose OPC	1989
Topeka	1991

Question: 14. Please describe all actions that DM&S is taking or planning to develop alternative treatment modalities that will maintain patients in their homes rather than require hospital or nursing home care?

Answer: DM&S is conducting and evaluating a wide range of program alternatives designed to maintain patients in their homes rather than requiring hospital or nursing home care. A good example is the set of mental health initiatives, or demonstration projects, sponsored by DM&S in the Northeast. These initiatives set out to demonstrate the clinical and economic value of community-based mental health care for chronically mentally ill veterans who are heavy utilizers of psychiatric inpatient care. The program is based on the premise that, for these intensive users, community-based treatment will improve the quality of their lives and ultimately reduce their need for institutional care. The initiatives include the following components at a number of different locations: patient tracking, satellite community clinics for rural populations, psychiatric hospital based home care, intensive residential care, a multiservice storefront center, community day programs, and intensive residential community rehabilitation. Ongoing evaluation is a part of this pilot process, including cost analysis.

Another new program which helps to obviate the need for institutionalization is community based treatment for chronically mentally ill veterans. This program, authorized by PL 100-6 in 1987, consists of outreach, intake assessment, assessment of psychiatric and medical needs, referral to appropriate health care providers, placement in residential treatment facilities through contract, and followup. Another program initiative in the 1980's has been treatment under contract in halfway houses for veterans suffering from alcoholism or drug abuse. This was authorized by PL 96-22 in 1980 and extended by PL 99-166 through FY 1988.

In addition to these special initiatives or programs, VA has focused on developing in recent years a continuum of noninstitutional care programs designed to provide the most appropriate levels of care for the full range of patients requiring long term care services, including chronically mentally ill and elderly veterans. This continuum of treatment programs includes community residential care, adult day health care, VA halfway house programs/exit units, day treatment centers, day hospital programs, mental hygiene clinics, drug dependence treatment programs, hospice programs, respite care, and the readjustment counseling or Vet Center program. Most of these programs provide specialized forms of care that fall between full hospitalization and more traditional models of ambulatory care. They are designed to allow the veteran to continue functioning in the community (or to avoid full hospitalization) and to allow him or her to maintain community ties.

The ongoing evaluation of the pilot studies will continue to provide DM&S with the kind of information necessary to choose the most fruitful modes of noninstitutional treatment.

Question: 15A. How many State home construction grant applications have been received in FY 1988 to date? = 9

Answer: The VA has received no formal applications in FY 1988 to date. The VA has received three preapplications in FY 1988 to date.

Question: 15B. What locations are being proposed and what is the total amount of the requests?

Answer: The attached list shows the locations being proposed and the total amount of requests for all preapplications and applications on hand as of December 30, 1987, including the three preapplications received in FY 1988 to date. No other preapplications or applications have been submitted by the States as of February 12, 1988.

Question: 15C. Please provide a listing of the applications for which funds are not available, including for each application the type of project, the date submitted, and the amount requested.

Answer: The attached listing shows the future projects for which Federal funds are not now available, the type of project, the date submitted, and the amount requested. The VA also has not received assurance of State matching funds for these projects.

PRIORITY LIST OF APPLICATION PENDING APPROVAL OF STATE HOME CONSTRUCTION GRANTS (DOLLARS IN THOUSANDS)

DECEMBER 30, 1987

Date Rec'd	Rank	Prior. Categ.	FAI No.	State(Locality)	Descr.	B.A.* 0***	FY 86 CO** 3,621 3,292	FY 87 CO 15,713 14,285	FY 88 40,320 36,654	FUTURE
06/86	1	1	01-001	AL(Alex.City)	150 NHC		3,292 (4,959)	1,667		
04/83	2	1	05-002	AR(Little Rock)	Con.70Dto50N		END '86	195		
06/82	3	1	42-008	PA(Hollidaysburg)	Ren.S.Hall 148			6,649		
02/85	4	1	42-010C	PA(Pennhurst)	180 NHC			3,621		
02/85	5	1	42-010A	PA(Pennhurst)	75 Dom			376		
02/85	6	1	42-010B	PA(Pennhurst)	75 Dom			376		
05/83	7	1	42-009	PA(Hollidaysburg)	Ren. Dietary			1,401 (1,727)	326	
12/84	8	1	39-009	OH(Sandusky)	Power Plant			END '87	1,409	
05/86	9	1	42-015	PA(Hollidaysburg)	Air Cond.				1,047	
08/84	10	1	16-002	ID(Boise)	Conv.194Dto96N				2,062	
10/84	11	1	29-005	MO(C.Girardeau)	150 NHC				5,850	
03/85	12	1	45-002	SC(Anderson)	220 NHC				5,785	
09/85	13	1	23-002	ME(Biddeford)	120 NHC				4,875	
04/87	14	1	34-012	NJ(Vineland)	Main Bldg.				423	
04/87	15	1	34-013	NJ(Vineland)	Rehab.Admin.				2,925	
11/86	16	1	46-009	SD(Hot Springs)	Sprinkler/Balc				94	
01/86	17	1	44-003	RI(Bristol)	Renov. Dom				2,000	
06/86	18	2	47-001	TN(Knoxville)	240 NHC				5,047	
01/84	19	2	12-001	FL(Lake City)	150 Dom				4,083	
05/79	20	3	24-003	MD(C.Hall)	126 N/D NHC				750 (3,049)	2,219
05/79	21	3	24-004	MD(C.Hall)	126 N/D NHC					5,296
05/84	22	3	39-010	OH(Sandusky)	300 NHC					9,729
08/86	23	3	08-008	CO(Walsenberg)	120 NHC					2,789
01/83	24	3	06-017B	CA(Yountville)	Ren. NHC 1-3B					1,747
01/83	25	3	06-024	CA(Yountville)	Ren.NHC 1-3C-D					3,120
01/83	26	3	06-025	CA(Yountville)	Ren.NHC 2-3E					2,300
01/83	27	3	06-026	CA(Yountville)	Ren.Anx I					2,411
01/83	28	3	06-027	CA(Yountville)	Ren.Anx II					2,441
01/83	29	3	06-034	CA(Yountville)	Ren.Adm.E					650
01/83	30	3	06-031	CA(Yountville)	Ren.Kit/Din					1,424
01/83	31	3	06-035	CA(Yountville)	Ren.Adm (N)					325
06/87	32	3	08-009	CO(Florence)	Dining (N)					50
[illegible]	33	4	16-003	ID(Eastern)	60N/22D					2,979
[illegible]	34	4	19-026	IA(Clarinda)	68 NHC					2,118
[illegible]	35	4	29-007	MO(St.Louis)	200 NHC					7,800
[illegible]	36	4	17-011	IL(LaSalle	120 NHC					4,680
[illegible]	37	4	26-005	MI(Marquette)	50 NHC					1,893
06/86	38	4	25-031	MA(Holyoke)	Life Safety					320
10/84	39	4	39-003	OH(Sandusky)	300 Dom					9,223
08/85	40	4	19-027	IA(Marshalltown)	Ren.Dietary					1,841
09/85	41	4	40-012	OK(Clinton)	Kit/Dining					1,034
01/83	42	4	06-020	CA(Yountville)	Ren.Dom H					932
01/83	43	4	06-021	CA(Yountville)	Ren.Dom J					933
01/83	44	4	06-022	CA(Yountville)	Ren.Dom K					892
01/83	45	4	06-023	CA(Yountville)	Ren.Dom L					812
01/83	46	4	06-028	CA(Yountville)	Ren.Dom G					2,600
[illegible]	47	5	06-016B	CA(Yountville)	Hospt.Support PS II					940

* Budget Authority ** carry-over ***To be obligated

FY: 1988
4,354 NHC Beds 1,172 AHC Beds

ADDITIONAL PREAPPLICATIONS (FORMAL APPLICATIONS DUE)

Received Prior to FY'87:

09/84	1	N/A	29-004	MO(St. James)	Replace 50 NHC	2,420
01/83	2	N/A	06-032	CA(Yountville)	Hospt. Food Svc.	46
01/83	3	N/A	06-029	CA(Yountville)	Ren. Storage Areas	195
01/83	4	N/A	06-033	CA(Yountville)	Ren. Sprinkler System	65
10/84	5	N/A	29-006	MO(NW)	150 NHC	5,850
02/85	6	N/A	42-011	PA(Pennhurst)	270 NHC	7,670
05/85	7	N/A	55-011	WI(King)	Renov. NHC	3,187
09/85	8	N/A	42-012	PA(Pennhurst)	Dining Facility	2,373
06/87	9	N/A	36-003	NY(Oxford)	PT, OT	758

Received in FY'87 and FY '88 to date

[illegible]	10	N/A	51-001	VA(Richmond)	New Home 74NHC/146D	10,400
[illegible]	11	N/A	16-004	ID(Northern	60 NHC/10Dom	2,979
[illegible]	12	N/A	33-035	NH(Tilton)	50 NHC Wing	3,208
[illegible]	13	N/A	17-012	IL(Quincy)	Renov. Kitchen	285
10/87	14	N/A	21-001	KY(Lexington)	240 NHC/60 Dom	8,657
10/87	15	N/A	72-001	PR(Juana Diaz)	250 NHC	7,705
11/87	16	N/A	27-007	MN(Silver Bay)	89 NHC/44 dom	2,396

NOTE: "Date Received" represents the date the completed preapplication was received by the Veterans Administration and assigned a Federal Application Identifier (FAI) Number.

1,233 NHC Beds

Question: 16A. How many lithotripters and magnetic resonance imagers (MRIs) does the VA currently have in operation?

Answer: There are four lithotripters currently in operation in the VA system. The device located at the VAMC Bronx is owned by the Mt. Sinai Medical School. The device owned by the VAMC Milwaukee is located at the university hospital. The device owned by the VAMC Asheville is located at St. Joseph Hospital. The device owned by the VAMC Richmond is located at the Medical College of Virginia Hospital. Two additional devices have been purchased and are owned by the VAMC Syracuse and the VAMC San Juan, but will be located at the affiliated university hospitals. These latter two devices are not yet in operation.

The VA currently has six MRIs operational in our medical centers in St. Louis, Richmond, Boston, Hines, Bronx, and San Francisco. (An additional eight have been purchased, and are awaiting construction and/or installation.)

Question: 16B. How many of each does the agency own or have access to as a result of a sharing agreement?

Answer: Of the four lithotripters presently in operation, the VA owns three. Through a sharing agreement the VAMC Bronx has access to the device which is owned by the Mt. Sinai Medical School but is located at the VAMC Bronx. The other three devices are operated through sharing agreement. Upon completion of installation of two additional lithotripters, the VAMC Syracuse and the VAMC San Juan will have access for their veteran patients through sharing agreements.

The VA has title to five MRIs procured through shared acquisition with private sector hospitals or groups. An additional 18 medical centers procured MRI services through sharing agreement contracts in FY 1987.

Question: 16C. How many VA facilities send patients to non-VA facilities for lithotripsy or procedures requiring MRI?

Answer: Eight VA medical centers have arrangements with non-VA facilities for referring patients for lithotripsy. Approximately 20 VA medical centers have referred patients requiring lithotripsy to the VAMC Iowa City which has a sharing agreement with the University of Iowa for treatment of these patients.

Ninety-two VA medical centers sent patients to non-VA facilities for MRI exams in FY 1987, either through sharing agreements or on a fee basis.

Question: 16D. What is the average distance these patients must travel and the average cost paid by the VA?

Answer: There are no data currently available to determine the average costs for travel or distances patients must travel for exams.

Question: 16E. What is the average cost of each such procedure when performed in-house and pursuant to a sharing agreement?

Answer: Our experience at the three sites where VA owns the lithotripters has not been long enough either in time or number of procedures performed to determine valid average costs. The average cost for lithotripsy through the sharing agreement between VAMC Iowa City and the University of Iowa is $2,300 per procedure based on a volume of 100 procedures.

While the average cost for each MRI exam performed in-house would be $350 to $400 based on the criteria of 2,000 exams/year, with the costs of equipment, construction, personnel staffing, maintenance, and supplies amortized over the expected life of the equipment, during FY 1987 the actual average cost was $442 per exam for those MRIs that have been installed all year because the annual usage rate has not yet reached the level of 2,000 exams per year. In FY 1987 the VA paid an average cost of $675 per MRI exam performed in non-VA facilities through sharing contracts and fee basis charges, excluding transportation and miscellaneous costs.

Question: 17A. Which VA hospitals and nursing homes have not yet implemented the unit-dose system?

Answer: Unit dose has not been implemented separately in VA nursing homes in any past VACO funded conversion. They were provided for in the context of the overall medical center. The following VAMCs have not yet implemented the unit-dose system.

Altoona, PA
American Lake (Tacoma), WA
Bath, NY
Bedford, MA
Biloxi, MS
Bonham, TX
Brockton, MA
Butler, PA
Charleston, SC
Chillicothe, OH
Clarksburg, WV
Coatesville, PA
Dayton, OH
Dublin, GA
Fayetteville, NC
Fort Lyon, CO
Ft. Meade, SD
Grand Island, NE
Hampton, VA
Huntington, WV
Iron Mountain, MI
Kerrville, TX
Knoxville, IA
Lake City, FL
Leavenworth, KS
Lebanon, PA
Lincoln, NE
Lyons, NJ
Marion, IN
Marlin, TX
Montrose, NY
Muskogee, OK
Northampton, MA
Oklahoma City, OK
Palo Alto, (MPD), CA
Roseburg, OR
Pittsburgh (UD), PA
Perry Point, MD
Providence, RI
Salisbury, NC
San Juan, PR
Sheridan, WY
St. Cloud, MN
Syracuse, NY
Togus, ME
Tomah, WI
Topeka, KS
West Haven, CT
White City, OR
Wilkes Barre, PA
Wilmington, DE

Question: 17B. How much money has been approved for FY 1988 and recommended for 1989 to implement unit dose systems altogether and at facilities which do not have unit-dose systems?

Answer: There were no funds approved for unit-dose conversions in the FY 1988 and FY 1989 budgets.

Question: 17C. Which facilities will benefit from these funds?

Answer: N.A.

Question: 18A. How many investigations did the Medical Inspector carry out in 1987 and how many have been initiated in FY 1988 to date.

Answer: The Medical Inspector reviewed 1,489 investigations initiated in the field during Fiscal Year 1987. In addition, the Medical Inspector initiated 226 investigations during this period.

In Fiscal Year 1988, to date, 525 investigations initiated in the field have been reviewed. In addition, 85 investigations have been intiated by the Medical Inspector.

Question: 18B. How many of these investigations have required a visit to the involved facility?

Answer: Of the 226 investigations initiated by the Medical Inspector during Fiscal Year 1987, 17 resulted in site visits.

Of the 85 investigations initiated so far this Fiscal Year (1988), 2 have resulted in site visits.

Question: 18C. How many were undertaken entirely by field personnel and in how many was the Medical Inspector himself involved?

Answer: Of the 17 site visits in Fiscal Year 1987, 8 were undertaken entirely by field personnel. The Medical Inspector was involved in 9 of the site visits.

The Medical Inspector was involved in both of the site visits undertaken so far this Fiscal Year (1988).

Question: 19. Briefly describe the status of the MEDIPRO effort (including the results gathered to date).

Answer: In the Spring of 1985, the VA selected three medical districts to pilot the MEDIPRO process. Five additional pilot districts were added in May 1986. During FY 1987 the Department of Medicine and Surgery implemented the program in the remaining 19 districts following the completion of an Evaluation Task Force Report of the experience of the first three pilot districts. This evaluation demonstrated that the Department's peer review program accomplished its objectives and that the MEDIPRO structure and process demonstrated excellent potential to identify problems. The evaluation also demonstrated a high level of cooperation among the physicians, dentists, and other health care professionals involved with this program.

Question: 20. On the day that the budget is submitted to the Congress, please submit the scores and rank order developed under the construction methodology prioritization process for the proposed major medical construction projects for FY 1989.

Answer: The proposed major medical construction projects for FY 1989 listed in rank order (high to low) according to the VA construction methodology prioritization process are as follows:

VAMC	Title	Priority Score
Tampa, FL	120-Bed Nursing Home Care Unit	19.00
San Antonio, TX	30-Bed Spinal Cord Injury Unit	15.50
Newington, CT	Medical Center Modernization (Design)	15.36
Indianapolis, IN	Clinical (Design)	14.83
Nashville, TN	Clinical Improvements/ Patient Privacy	14.24
Leavenworth, KS	Patient Privacy, Fire/Safety Improvements, B-122	13.56
Pittsburgh, PA	Replacement Medical Center	12.11
Montrose, NY	Renovate B-15	11.86
Beckley, WV	Clinical Addition/ Alterations	11.82
Mountain Home, TN	600-Bed Domiciliary	11.73
Perry Point, MD	Clinical Addition, B-23H	10.97
Atlanta, GA	Clinical Addition, Parking Garage	10.80

The VA construction methodology prioritization process does not currently address cemetery projects or projects for the Department of Veterans Benefits. The following two projects are also proposed for the FY 1989 construction program:

Calverton, NY	Develop 90,000 Gravesites
Montgomery, AL	Colocation

The VA construction methodology prioritization process does not address claims against the VA. The following two claims are proposed for the FY 1989 construction program:

Bronx, NY	Contractor Claims
Washington State	Sales Tax

Question: 21. On the day that the budget is submitted to the Congress, please submit the list of projects that will receive Advance Planning Funds and Design Funds in FY 1989.

Answer: At this time, the Advance Planning Fund list must be considered tentative and subject to change. As part of the budget development process, decisions are made which impact upon the major construction plan for future years including outyear budget targets. The VA is currently deliberating on revisions to the five year plan and when approved by the Administrator will enable the Advance Planning Fund list to be finalized. This list is therefore provided for information purposes only and is subject to additions and/or deletions. The tentative list follows:

Facility	Project	Cost ($000)
Buffalo, NY	Clinical Addition	$ 5,000
Columbia, SC	Regional Office	$ 4,600
Ft. Logan, CO	Cemetery	$ 3,300
Nashville, TN	Parking Garage	$ 6,000
Newark, NJ	Regional Office	$10,500
Palo Alto, CA	Seismic, Patient Privacy Corrections, Building 2	$12,465
Riverside, CA	Cemetery	$11,700
Tomah, WI	Modernize Buildings 400, 401, 402, 407 and Clinical Addition	$16,300

At this time, the Design Fund list must be considered tentative and subject to change. As part of the budget development process, decisions are made which impact upon the major construction plan for future years including outyear budget targets. The VA is currently deliberating on revisions to the five year plan and when approved by the Administrator will enable the Design Fund list to be finalized. This list is thus provided for informational purposes only and is subject to additions and/or deletions. The tentative list follows:

Facility	Project	Cost ($000)
Cleveland, OH	Regional Office	$15,600
Columbia, SC	New Psychiatric Building	$ 6,900
Dublin, GA	Outpatient Clinic Addition	$ 8,000
Ft. Snelling, MN	Cemetery	$ 3,250
Hartford, CT	Regional Office	$ 3,800
Jefferson Barracks, MO	Develop 25,000 Graves	$ 3,025
Knoxville, TN	Laundry Replacement	$ 4,600
Las Vegas, NV	Outpatient Clinic - Joint Venture Air Force/VA - Nellis Air Force Base	$ 7,000
Long Beach, CA	Structural Seismic Deficiencies	$26,500
Lyons, NJ	Renovate Building 53	$ 6,900
Marion, IL	Clinical/Outpatient Addition	$12,000
Marion, IN	New Psychiatric Building/ Central HVAC	$20,000
Northport, NY	Modernize Psychiatric and Outpatient Facilities	$28,900
Salem, VA	Renovate Psychiatric Buildings 9, 10, 11	$14,000
Salt Lake City, UT	Renovate Building 1	$ 5,000
Temple, TX	Bed Addition	$25,000
Tuscaloosa, AL	Renovate Buildings 33, 38, 39, 40	$13,800
Waco, TX	Renovate Buildings 4, 11	$ 9,700
Willamette, OR	Cemetery	$ 3,250

Question: 22. In November 1987, in a follow-up to a lengthy meeting with the staff of this Committee, the agency began development of a requirements package to contract, under the Management Studies Contracts program, with Booz, Allen, and Hamilton (BAH) to evaluate the format and process for Facility Development Plans (FDPs).

A. What progress has been made with respect to developing the requirements package for evaluating (i) the overall efficacy and adequacy of the FDP format and development through the first stage, "problem definition", and (ii) the appropriateness of proceeding with additional FDPs through stage one before all stages of the pilot FDPs have been completed, independently evaluated, and validated?

Answer: The requirements package for the evaluation of the pilot FDPs was approved by the Administrator on February 9, 1988. In this package, the consultant is requested among other things to evaluate the overall efficacy and adequacy of the FDP format and development through the first stage, "problem definition" and the appropriateness of proceeding with additional FDPs through stage one before all stages of the pilot FDPs have been completed, independently evaluated and validated.

Question: 22.B. When will the BAH contract be awarded?

Answer: A request for proposal was issued to BAH on February 12, 1988. It is anticipated that BAH will submit a proposal by February 29, 1988, and a contract awarded within 10 days after receipt of their proposal.

Question: 22.C. When is BAH's first report -- analyzing the overall efficacy and adequacy of the FDP format and development through the first stage -- due to the agency?

Answer: BAH's first report -- analyzing the overall efficacy and adequacy of the FDP format and development through the first stage is due to the agency within 35 working days after contract award.

Question: 22 D. What is the status of the implementation of each of the six additional core-process recommendations-listed below as items (i) through (vi)--and excluding development of FDPs---that were made in the April 1985 report by Booz, Allen & Hamilton/RTKL Associates?

(i). "Development of earlier, more comprehensive project scope descriptions that provide necessary information for initiation of 5-year facility construction planning and project design activities."

Answer: From our work on the four pilot FDP projects, we have identified and incorporated new approaches that improve project planning and provide better, more comprehensive information on scope alternatives and their ramification on overall facility planning and operations. The FDPs will provide comprehensive project planning information. With this information the VA will the have flexibility to alter or vary project scopes depending on the availability of capital improvements resources. New tools for determining initial design programs and construction project scopes such as the modeling of facility space programs, have also been recently initiated. In addition, the FDP process has fostered a better understanding of the roles of the various organizational elements. This new understanding has improved the total facility planning effort by allowing for more effective use of VA personnel.

Question: (ii). "Integration of the 5-year facility construction planning process with the MEDIPP to allow more effective construction planning within the context of health-care program directions."

Answer: Linkages and planning cycles are being altered to improve integration of MEDIPP, FDPs and construction projects. Procedures for out of cycle MEDIPP reviews and revalidation of DM&S program planning information at various stages of project development are now in place to insure the appropriateness of FDPs and construction project scopes. Other agreements such as a memorandum of understanding between O/F and DM&S for FDPs are being developed that outline participants, decision points and decision-makers.

The Facility Development Planning (FDP) process will significantly improve the cpordination of program planning (MEDIPP) with 5-year facility construction planning and provide new information to meet health care program directions while making better construction resource allocation decisions. The FDP process allows the comprehensive examination of numerous construction alternatives or strategies to meet future and current programmatic needs all in the context of anticipated construction resources. A strategy is selected for implementation that meets a facility's program directions over time, dove tailed with those of DM&S and district, regional and national program directions.

Question: (iii). "Establishment of better national office construction planning information that focuses attention on the achievement of health care facility construction goals and objectives."

Answer: Facility Development Plans will provide basic information on all aspects of VA facilities. Information will be available to mitigate deficiencies, meet priorities and objectives and new program initiatives. A facility data base and appropriate information for the establishment of a regional and national data base will be a direct benefit of the FDP process. This will allow the VA to better establish and eventually meet health care facility construction goals and objectives, while improving resource requirements and allocation decisions.

Question: (iv). "Redefinition of design activities to stress the logical progression of design decisionmaking from the resolution and functional design issues to the resolution of technical design issues."

Answer: The Office of Facilities is in the process of revising its design activities from its current two phased approach (preliminary plans and working drawings) to a three phased approach (schematics, design/development, and contract documents). The APF process will now include the design/development phase which equates to thirty-five precent of working drawings under the current design process. The emphasis of this effort is to resolve major functional, technical and scope issues at the earliest possible time. An added benefit is that the VA terminology will be consistent with current industry design and construction practices. An integral part of the FDP process is the initiation of design programming activities in support of future construction projects. This first phase of design programming will analyze departments and services and estimate current and future requirements in terms of location, space, equipment and technical needs. It will form the basis for more intensive design programming activities that normally occur during the development of a specific construction project. Final accomplishment of design program activities occurs during the three principal design phases.

Question: (v). "Development of funding strategies that minimize coordination requirements between the construction and budget processes to allow uninterrupted project design."

Answer: Booz-Allen Hamilton/RTKL recommended either of two funding strategies in order to provide greater flexibility in carrying out uninterrupted design activities: (1) Consolidation of APF and design funding into one combined APF/Design Fund. (2) Redefine the Design Fund requirements to allow the VA to fund activities under an individual project from the APF and Design Fund during the same fiscal year.

A decision has been made by the VA to change the design process. This is evidenced by the FY 1989 Budget Submission. An Office of Facilities work group is now examining alternative design funding approaches. Following the completion of these studies and the establishment of the new design process, a proposal to Congress, if appropriate, will be made to alter our funding strategy.

Question: (vi). " Development of facility design standards and control techniques that provide the necessary tools for project planning and overall process control."

Answer: Space program planning is now being accomplished using a computer based Integrated Medical Facility Planning (IMFP) system, which contains the space planning criteria for medical facilities developed by the VA. Through the impact of project specific information (e.g., workload and staffing requirements), a room by-room space program is generated for a given medical center. In conjunction with the IMFP, a series of staffing and workload models have been generated to facilitate the development of space programs early in the problem definition stage of FDP. Further enhancements to the IMFP are anticipated (i.e., project-specific equipment requirements and prioritization methodology for major construction projects).

An Office of Facilities criteria work group has been established to develop new approaches to improve space and equipment planning standards. This work group is examining the need for increased departmental field involvement, establishing detailed tracking systems of major development milestones, documenting operational treatment modalities, and considering the usefulness of developing design guide plates. It is anticipated that design guide plate will better communicate functional and technical requirements to the design and construction industry. Recently, guide plates for Spinal Cord Injury Units have been developed and are now under review.

The work group will be working with DM&S Central Office and field respresentatives to determine the extent to which the chapters of space planning criteria require revision and to establish priorities for conducting criteria studies.

Overall process control approaches recently implemented by the Office of Facilities include the use of Project Management Plans for all major construction projects under development and a program status tracking report of the Construction Operating Plan both designed to identify problem areas at the earliest possible time.

Question: 23. The FY 1988 Budget Operation Plan (BOP) for major construction calls for an obligation of $1.4 million in each of June and September 1988, for Facility Development Plans (FDPs).

23.A. Please describe the circumstances under which these funds could be obligated on this schedule in light of the pending independent evaluation of the FDP format and development process.

Answer: It is assumed that the BAH evaluation of the pilot FDPs will be completed by June 1988 and that the evaluation will recommend proceeding with the FDP initiative. With these assumptions, it is anticipated that seven $200,000 letter contracts for preparing the first 40 FDPs in the seven Regions will be issued in June 1988, and that seven $200,000 letter contracts for preparing the second 40 FDPs in the seven Regions will be issued in September 1988.

Question: 23.B. At how many VAMCs is it projected that the phase 1 "problem definition" assessments will be conducted under the BOP?

Answer: It is projected that 80 FDPs will be started in FY 1988. Of these, 40 FDPs are funded from FY 1987 monies and are expected to be underway in FY 1988. The remaining 40 FDPs are funded from FY 1988 monies and it is anticipated that letter contracts will be awarded for them in September 1988, with Phase 1 starting shortly thereafter.

Question: 23.C. (i) There is a footnote to the "Contingency Funds" item for each of July and September 1988 which states "includes $4.3 million for modifications to FDP letter contracts scheduled to be awarded in June". What modifications are planned for these letter contracts?

Answer: The budget operating plan procedures require that the money set aside for FDPs beyond the initial letter contracts be listed as contingency funds. The $4.3 million would be used for continuation of the letter contracts and subsequent conversion to fixed price contracts once they are negotiated.

Question: 23.C. (ii) How many contracts would be involved in this process?

Answer: For the first 40 FDPs we have selected seven firms, one firm for each of the seven DM&S regions. We are now in the process of selecting seven firms for the second 40 FDPs, again one firm for each of the seven DM&S regions.

Question: 24.A. The FY 1988 BOP for major construction also contains $7,303,000 for central office for preliminary plans. For which construction projects will preliminary plan contracts be awarded?

Answer: 24.A. Attached is a listing of construction projects for which preliminary plan contracts will be awarded in FY 1988.

Question: 24.B. The FY 1988 BOP for major construction also contains $17,179,000 for central office working drawing awards. For which construction projects will working drawing contracts be awarded?

Answer: 24.B. Attached is a listing of construction projects for which working drawing contracts will be awarded in FY 1988.

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Tue Feb 16
                                       MAJOR CENTRAL OFFICE WORKING DRAWING AWARDS PLANNED FOR FY 1988

MIS NO           LOCATION                                DESCRIPTION
------ ----------------------------- -- ----------------------------------------
508018 ATLANTA                       GA CLINICAL ADDITION AND PARKING GARAGE
517013 BECKLEY                       WV CLINICAL ADDITION & ALTERATIONS
805015 CALVERTON NATL.CEMETERY       NY DEVELOP & CONSTRUCT 90,000 GRAVESITES
537032 CHICAGO(WS)                   IL FIRE & SAFETY/PATIENT PRIVACY IMPROVMENT
537048 CHICAGO(WS)                   IL RENOVATE BUILDINGS 11A & 11B PHASE II
686077 LEAVENWORTH                   KS PATIENT PRIVACY/FIRE & SAFETY IMP. B 122
607033 MADISON                       WI CENTRAL AIR CONDITIONING
621041 MOUNTAIN HOME                 TN 600 BED DOMICILIARY
621075 MOUNTAIN HOME                 TN 120 BED NHCU
626018 NASHVILLE                     TN CLINICAL IMPROVEMENTS & PATIENT PRIVACY
913001 NORTHERN CALIF.NAT'L CEME     CA MASTER PLAN AND PHASE I DEVELOPMENT
641080 PERRY POINT                   MD CLINICAL ADDITION BLDG #23H
648D37 PORTLAND                      OR REPL.HOSP.PH 4(DEMO,ADD.PKG,SITE DEV.)
648G37 PORTLAND                      OR PORTLAND BRIDGE
648W37 PORTLAND(VANCOUVER)           OR 60 BED/SUPPORT BUILDING
671046 SAN ANTONIO                   TX 30 BED SCI UNIT
685077 WACO                          TX RENOVATE BUILDINGS 91 AND 92
452051 WICHITA                       KS CONSTRUCT REGIONAL OFFICE
693049 WILKES BARRE                  PA 60 BED NURSING HOME  CARE UNIT(ADD FLOOR

19 records selected.

UFI> SPOOL OFF
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Tue Feb 16

MAJOR PRELIMINARY DESIGN AWARDS PLANNED FOR FY1988

MIS NO	LOCATION		DESCRIPTION
509110	AUGUSTA(LD)	GA	REMOD.BLG.76(UPTOWN),28 BED SCI(DOWNTOWN
522034	BONHAM	TX	DOMICILIARY REPLACEMENT
805015	CALVERTON NATL.CEMETERY	NY	DEVELOP & CONSTRUCT 90,000 GRAVESITES
544050	COLUMBIA	SC	NEW PSYCH BUILDING
555047	DES MOINES	IA	BUILDING ADDITION,CLINICAL,EDUCATION,ETC
561072	EAST ORANGE	NJ	OUTPATIENT/CLIN.KITCHEN & HVAC OUT.BLDGS
101083	GREAT LAKES REGION	MI	FACILITY DEVELOPMENT PLANS
101143	GREAT LAKES REGION	MI	FACILITY DEVELOPMENT PLANS (2ND GROUP)
583042	INDIANAPOLIS (WTS/CSR)	IN	CLINICAL IMPROV./BEHAV. SCIENCE CENTER
600052	LONG BEACH	CA	SEISMIC,FIRE & SAFETY,SCI,SURGICAL RENOV
604086	LYONS	NJ	RENOVATE BUILDINGS 55,56,58 AND 8
607033	MADISON	WI	CENTRAL AIR CONDITIONING
609019	MARION	IL	CLINICAL/OUTPATIENT ADDITION
612050	MARTINEZ	CA	CORRECT SEISMIC DEFICIENCIES
612051	MARTINEZ	CA	RELOCATE SPD & EXPAND AMBULATORY CARE
101081	MID-ATLANTIC REGION	PA	FACILITY DEVELOPMENT PLANS
101141	MID-ATLANTIC REGION	PA	FACILITY DEVELOPMENT PLANS (2ND GROUP)
101144	MID-WESTERN REGION	KS	FACILITY DEVELOPMENT PLANS (2ND GROUP)
101084	MIDWEST REGION	MO	FACILITY DEVELOPMENT PLANS
623053	MUSKOGEE	OK	NURSING UNITS RENOVATE/EXPAND
101080	NORTHEAST REGION	NY	FACILITY DEVELOPMENT PLANS
101140	NORTHEASTERN REGION	MA	FACILITY DEVELOPMENT PLANS (2ND GROUP)
632057	NORTHPORT	NY	MODERNIZE PSYCH AND OP FACILITIES
655022	SAGINAW	MI	120-BED NURSING HOME CARE UNIT
658052	SALEM	VA	RENOVATE PSYCH BULDINGS 9,10 & 11
659028	SALISBURY	NC	RENOVATE BLDG 21 FOR NURSING HOME CARE
660139	SALT LAKE CITY	UT	RENOVATE BUILDING 1
101082	SOUTHEAST REGION	FL	FACILITY DEVELOPMENT PLANS
101142	SOUTHEASTERN REGION	FL	FACILITY DEVELOPMENT PLANS (2ND GROUP)
101086	SOUTHWEST REGION	TX	FACILITY DEVELOPMENT PLANS
101146	SOUTHWESTERN REGION	TX	FACILITY DEVELOPMENT PLANS (2ND GROUP)
673013	TAMPA	FL	CLINICAL ADDITION/80 BED SCI UNIT
679068	TUSCALOOSA	AL	RENOVATE BUILDINGS 33,38,39 AND 40
101085	WESTERN REGION	CA	FACILITY DEVELOPMENT PLANS
101145	WESTERN REGION	CA	FACILITY DEVELOPMENT PLANS (2ND GROUP)

Attachment B of the Administrator's October 14, 1987, letter provides evaluation milestones for the pilot program on management efficiency.

Question: 25A. What were the results of the organizational climate survey of employees at pilot and comparison sites?

25B. When was the survey administered?

Answer: The results of the organizational climate survey of employees have not yet been obtained. The survey was distributed to the field sites on February 11, 1988, and will be administered by March 18, 1988. The survey will be conducted at all 22 field sites, the 11 pilot sites and the 11 comparison sites. Over 20,000 employees will be polled.

Question: 25C. When were the pretest measurements completed?

Answer: It is estimated that pretest measures will be completed by April 15, 1988.

Question: 25D. What baseline information has been created as a result of the completion of pretest measurements?

Answer: Baseline information will consist mainly of the quantitative indicators outlined in the original proposal and the results of the pretest measures of the organizational climate survey. During the next few months the list of potential quantitative indicators will be revised to more completely reflect the goals of the project and to reflect the expected effect of the numerous waivers being approved.

Question: 25E. When will the analysis of pretest measurements be completed?

Answer: The analyses of pretest measures is estimated to be completed by July 30, 1988.

Question: 25F. Please describe the methods used for ensuring accountability in this study with respect to (i) project direction, (ii) project control, (iii) supervision of technical work, (iv) completing each phase of the work on schedule, and (v) overall task execution.

Answer: (i) Project direction is provided by an Agency-level Steering Committee led by the Associate Deputy Administrator for Management with representatives from each department and the major staff offices holding membership. The Steering Committee also includes representatives from field facilities and meets on a quarterly basis.

(ii) Complementing the Steering Committee is a Working Group consisting of a working-level liaison for each Steering Committee member whose primary function is to execute the policies and direction set by the Steering Committee. The Working Group is chaired by the Director, Office of Program Analysis and Evaluation.

(iii) Supervision of technical work is divided between two project directors within the Studies and Evaluation Service, Office of Program Analysis and Evaluation. In addition, ad hoc assignments are given to Working Group members. The technical work is separated into two general categories - (1) evaluation of the project and (2) overall project management including waiver tracking and control. The volume of waivers from the field facilities and the need to monitor the complicated review and concurrence process of each waiver requires a greater allocation of resources than was initially expected. This also impacted on the evaluation portion of the project hence the need for a division of responsibilities. Each project director provides weekly status information to the Deputy Associate Deputy Administrator for Management.

(iv) Completion of each phase of the work schedule is monitored through the attainment of milestones identified for the project. These milestones contain expected start and completion dates and are reported to the Associate Deputy Administrator for Management on a monthly basis.

(v) Overall task execution is reviewed by three levels of management. First, the Director, Studies and Evaluation Service, prepares weekly status reports and identifies resource needs to keep the project on schedule. The next level of review is provided by the Director, Office of Program Analysis and Evaluation, who is responsible for overall coordination of the project. Finally, the Associate Deputy Administrator for Management and Deputy Associate Deputy Administrator for Management review overall task execution through frequent meetings with the project teams and monitoring the program operating plan which tracks the project's milestones.

With respect to requests for waiver of restrictive provisions in statute, regulation, and administrative directive:

Questions:	25G(i)(a), 25G(ii)(a), and 25G(iii)(a). How many total requests, and how many for waiver of (i) administrative directives, (ii) regulations, and (iii) statutes have been received from Department of Medicine and Surgery (DM&S), Department of Veterans Benefits (DVB), and the Office of Information Systems and Telecommunications (OIS&T) field locations?
Answer:	As of February 12, 1988, 531 waivers had been received from field sites by the Office of Program Analysis and Evaluation: 125 waivers from DM&S, 401 waivers from DVB, and 5 waivers from OIS&T. This does not include 124 waivers approved at VA Central Office prior to the beginning of the project (94 Agency-level waivers were approved on July 16, 1987, and 30 waivers were approved by DVB Central Office staff.)

Waiver Status	DM&S	DVB	OIS&T	TOTAL
Waivers in Process	75	76	0	151
Administrative waivers approved	22	177	1	200
Administrative waivers conditionally approved	5	9	0	14
Waivers approved pending:				
Internal Regulation Change	0	6	0	6
External Regulation Change	1	0	0	1
Legislative Change	0	7	0	7
Waivers disapproved	16	83	1	100
Waivers withdrawn	1	4	2	7
Waivers unnecessary	3	35	1	39
TOTAL	125	401	5	531

Administrative waivers conditionally approved include waivers that are approved, but with some limiting conditions. Waivers approved pending changes include those requiring change to VA Regulations; those requiring the approval of external agencies such as GSA, OPM, etc.; and those requiring change in legislation by Congress. Waivers disapproved include those deemed inappropriate by Agency managers. Waivers withdrawn are those that are withdrawn by the originator, those that are duplicative, and those not fully developed. Waivers unnecessary include those in which a policy or directive is already in effect that enables the action requested in the waiver.

Questions:	25G(i)(b), 25G(ii)(b), and 25G(iii)(b). Please provide a list of approved DM&S, DVB, and OIS&T requests.
Answer:	The waivers approved to date are listed on attachment A.

APPROVED VA REGIONAL OFFICE WAIVERS

Waiver No.	Description
00002	Loan Guaranty - Closing Loans on an Automatic Basis with Non-Supervised Lenders
00003	Loan Processing Underwriting Procedures
00005	Loan Guaranty (Loan Service and Claims Section) - Equity Memorandums
00006	Loan Guaranty Division - VA Form 26-1833 (Advice Regarding Indebtedness of Obligors on Guaranteed or Insured Loans
00007	Loan Guaranty Division (Loan Service and Claims Section) - Custodial Record Keeping
00008	Loan Guaranty Division - Partial Releases - Guaranteed Loans
00009	Loan Guaranty Division - Interest Rate Certifications
00010	Veterans Services Division - Follow-Up Exams - Supervised Direct Pay
00011	Veterans Services Division - Hospital VBC Office Cannot be Left Unattended for More than Five Consecutive Workdays
00012	Veterans Services Division - Federal Fiduciary Accountings
00013	Veterans Services Division - Follow-Up Field Exams
00014	Veterans Services Division - Reportable Work Count
00015	Veterans Services Division - Pending Work Day Computations
00016	Veterans Services Division - Auditing Court Accountings
00017	Education Benefits - Chapter 106 Double Signature Requirement
00020	Finance - Frequency of Preparing VA Form 1358
00021	Loan Guaranty - Vendee Interest Rate
00022	Loan Guaranty Division, Property Management Section - Criteria for Selecting Offers
00023	Loan Guaranty Division, Property Management Section - Rebate to Buyers for Repairs
00025	Loan Processing - Release of Liability
00028	Centralized Transcription Activity - Quality and Timeliness Control
00032	Adjudication, Finance, Administration - Check Intercept Procedures
00033	Finance - COIN EDU 270 listing
00035	Loan Guaranty - Airport Noise Zone Maps
00026	Veterans Services Division (Compliance Survey Unit) - Class Checks
00037	Veterans Assistance Service - Statistical Quality Control
00038	Loan Guaranty Division - Intermediate Inspections on Proposed Construction
00039	Finance Section - VA Form 22-6553 Filing by Input Date
00041	Loan Service & Claims, Loan Guaranty Division - VA Repurchase of Loans - Target Enhancement
00043	Veterans Services Division, Education Liaison Unit - 85% - 15% Basic Paragraph 4, Waiver (Granted Pending Change in Regulation)

00080	Veterans Services Division - Compliance Survey - Completion of VA Form 22-1936
00081	Loan Guaranty Division, Loan Processing Section - Veteran's Occupancy Certification
00082	Loan Guaranty Division - Requirement For Additional Sets of Exhibits
00083	Loan Guaranty Division, Property Management Section - Use of Licensed Real Estate Sales Brokers to Sell VA Acquired Properties
00084	Loan Guaranty Division, Property Management Section - Management Broker Fees
00085	Veterans Services Division and Adjudication - Civil Service Preference Certificates
00086	Loan Guaranty, Appraisal Section - Flood Maps/Flood Insurance (Conditionally Granted)
00088	Adjudication - Paragraph 29 Ratings
00089	Compensation & Pension - Entry of Data into Special Interest Rating System
00097	Finance (Supply) - Document Numbering System
00098	OF 346 - Motor Vehicle Operators ID Card
00099	Administrative Division - Marking Folders XC
00100	Administrative Division - Search Mail
00101	Administrative Division - Powers of Attorney, VAF 23-22
00102	Administrative Division - Motor Vehicle Trip Ticket
00104	Adjudication - Single Signature Awards
00106	Adjudication Division - Original DIC Awards to Widows
00107	Loan Guaranty Division, Construction Section - Acceptance of Houses Less than One Year Old, Built Without VA or FHA Inspections and not covered by an acceptable ten year warranty
00108	Accounting - Elimination of RCS 04-0445 (DVB Flash)
00109	Veterans Services Division, Veterans Assistance Section - Burial Flag Survey
00111	Veterans Services Division - Work-Study Advance Payment (Granted Upon Change in Legislation)
00112	Veterans Services Division, Veterans Assistance Section - Delinquent Certifications
00113	Veterans Services Division - Work Study Activity Form Letters 20-683 and 20-687a
00114	Veterans Services Division, Veterans Assistance Inquiry Control - General Assistance Inquiries
00117	Loan Guaranty Division - Construction & Valuation - Fee Inspector approval of VA Form 26-1844 - Change Order Requests Where Value is not Adversely Affected
00118	Loan Guaranty Division - Construction & Valuation - Requiring Termite Certificates on Existing New Properties Which have 10-year Insured Warranty Coverage
00125	Loan Guaranty, Loan Processing - Pamphlets are Mailed to the Veteran when Entitlement has been Restored or when Entitlement has been Used but not Restored
00120	Adjudication - Permanent Transfers of Files
00121	Loan Servicing - VA Guaranteed Loans Facing Imminent Default and Foreclosure

00127	Adjudication, Claims Processing - Target Security - Prohibition of the Same Person Having CEST/AUT Authority
00128	Adjudication - Pension Benefits/Remarried Widows
00129	Veterans Services Division - Systematic Analysis - List of Required SAO's for Compliance Survey and Liaison
00131	Accounting - Sales Commission/Advance Repairs
00133	Loan Guaranty Division, Property Management Section - Repair Bids
00134	Loan Guaranty Division, Property Management Section - The Management and Sale of VA Acquired Properties
00135	Veterans Services Division - Scheduling Future FR Exams with Minors
00137	Veterans Services Division and Adjudication Division - Procedures for Changing a Payee or Type of Payee in a Judiciary Case
00138	Veterans Services Division and Administrative Division - Target Sensitivity Level Assigned Work-Study Students
00139	Veterans Services Division - Processing Veterans Assistance Inquiries
00141	Veterans Services Division and Adjudication Division - Procedure for Suspension of Awards
00142	Veterans Services Division - Designation of Work-Study Coordinator
00144	Finance - Loan Sales to Private Investors
00145	Finance - Certificates of Attendance
00146	Loan Guaranty - Counter-Signature on High Income Ration Cases
00147	Vocational Rehabilitation and Counseling Division - Cost Control Record (28-1905A)
00148	Vocational Rehabilitation and Counseling Division - VR&C Control Code Indicator 718
00152	Education Benefits - Automatic Allowance of Second Change of Program (Granted Upon Change in Legislation)
00154	Adjudication Division - Completion of Items on Ratings
00156	Personnel - Merit Promotion Procedures
00157	Compensation and Pension - VARMS
00158	Administrative Division - Counting of Mail
00159	Loan Guaranty - Abbreviated Review of Automatic Cases
00160	Loan Guaranty - Escrow
00163	Loan Guaranty and C&V Section - Field Review of Appraisers
00165	Loan Guaranty Division - Loan Service and Claim Section - Adjustments to GI and Mobile Home Claims
00166	Loan Guaranty Division - Property Management - Cash Sales
00167	Loan Guaranty Division - Property Management - Criteria for Acceptance of Offers
00168	Loan Guaranty Division - Property Management - Sales to Speculative Purchasers
00169	Loan Guaranty Division - Property Management - Repairs Prior to Title
00171	Veterans Services Division - Delegation of Authority to Sign Veterans Services Officer's Name

00172	Veterans Services Division and Adjudication - Request of Medical Reports from VA Medical Center
00174	Veterans Services Division - Requirements to see Veterans Screened "See" at Remote VA Medical Centers
00176	Veterans Services Division - Criteria for Identification of Pattern of Errors and Action Required upon Identification
00178	Veterans Services Division - Number of Equal Opportunity Reviews to be Done
00179	Administrative Division - Recall of Loan Guaranty and XC folders
00182	Administrative Division - Creation and Control of Local Forms and Form Letters
00184	Administrative Division - Overprinting
00191	Administrative Section - Report of Mailing Costs
00194	Telephone Unit - Approval of FX and Watts Lines (Conditionally Approved)
00196	Personnel - Federal Employee Health Benefits for Temporary Employees (Conditionally Approved)
00212	Loan Guaranty, Loan Service and Claims - Update Manual and General Procedures
00213	Adjudication - TARGET - Status of Remanded Appeals
00214	Vocational Rehabilitation Division - Scheduling
00216	Vocational Rehabilitation - Supervision Via Telephone
00217	Vocational Rehabilitation - Rescheduling 10% and 20% Veterans who Miss Scheduled Counseling Appointments
00218	Vocational Rehabilitation - Elimination of Certain Referral Requirements to the Vocational Rehabilitation Panel (Conditionally Granted)
00219	Vocational Rehabilitation - Follow-Up Requirements on Discontinued Cases (Conditionally Granted)
00223	Education Benefits - Processing or Reduction and Termination Notices - VA Form 22-1999b
00225	Loan Guaranty Division, Property Management - Selection of Best Purchase Offer Received During Simultaneous Period
00226	Loan Guaranty Division - Property Management Insurance Policies
00228	Loan Guaranty Division - Property Management Geographic Cards
00229	Loan Guaranty Division - Property Management Bonus for Cash Sales
00231	Vocational Rehabilitation and Counseling - Vocational Rehabilitation Panel Operations (Approved Pending Change in Regulation)
00233	Vocational Rehabilitation and Counseling Division - Self-Employment Plans (Approved Pending Change in Regulation)
00235	Vocational Rehabilitation and Counseling Division - Vocational Rehabilitation Panel (Approved Pending Change in Regulation)
00236	Adjudication - RCS 20-0262, pt. 10 - EVR Suspense List
00238	Veterans Services Division - VLFT Command - Target
00239	VR&C Division - Revolving Fund Loan Approval

00241	Veterans Benefits - Subsistence Allowance for Chapter 31 Veterans
00251	Loan Guaranty Division - Post-Audit of Prior Approved Loans, Automatic Loans, and Defaulted Loans
00252	Loan Guaranty Division - Use of Fee Personnel to Complete Credit Analyses on Property Sales Involving Vendee Financing
00255	Veterans Services Division - Reconciliation of VA Form 10-1225
00260	Adjudication - Correspondence Function - Controls on Transfer in Mail
00261	Adjudication - Authorization - VA Form 20-8854
00262	Adjudication - Correspondence/Files - Requesting Files and Preparation of Charge Cards
00263	Adjudication - Authorization Policy - Two Signature Awards (Conditionally Approved)
00264	Adjudication - Rating - Failure to Report for Examination - Static Disabilities
00265	Adjudication/Authorization/Education - Requirement for Reconfirmation of Enrollment Following Recoupment of Education Overpayment
00268	Veterans Benefits - Work-Study Program for Chapter 31 Veterans (Approved Upon Change in Legislation)
00271	Adjudication - Activity Report
00273	Fiduciary and Field Examination Unit - Certification of Fiduciaries
00275	Adjudication - Authorization - Establishment of Widow/Widower in Death Pension/DIC cases
00277	Adjudication - Rating/Authorization/Development - Confirmation of POW Status (The Alternative Suggestion Approved)
00278	Veterans Services Division - Applications/Reductions RH Insurance Policies (Approved Pending Change in Regulation)
00281	Finance - Committee on Waivers and Compromises Financial Status Report
00282	Finance - Committee on Waivers Timeliness Standards (Conditionally Approved)
00289	Centralized Transcription Activity - AMIS Reporting Requirement for the CTA
00292	Loan Guaranty - Repairs
00293	Loan Guaranty - On-Site Inspections of Manufactured Homes (Approved--Seek Change in Legislation)
00294	Loan Guaranty - Recording of Appraisal Field Review Reports
00299	Adjudication - Obtaining Hospital Reports
00307	Adjudication - Claims Processing - Target Enhancement - Verification of VA and SSA Pension and DIC Rates
00309	Loan Guaranty Division (Loan Service and Claims Section) - Eliminate Central Office Review for Denial of Claims
00311	Loan Guaranty Division (Loan Service and Claims Section) - Establishment of a Servicing Questionnaire for Uniform Use Throughout All Regional Offices when Performing Supplemental Servicing.
00312	Loan Guaranty Division - Use of Fee Attorneys to Obtain Releases on Bankruptcies (Approved Upon Change in Legislation)

00313	Loan Guaranty Division - Nonpayment of all Supplemental Taxes
00314	Loan Guaranty Division - Elimination of Paying for Hazard Insurance from Impound Account
00315	Loan Guaranty Division - Processing of Insurance Proceeds
00316	Loan Guaranty Division - No Amount Specified (No-Upset Price) Within 2 years from the Date of the Loan
00317	Loan Guaranty Division, Loan Service and Claims Section Completion of VA Form 26-6713 Signature Blocks, (Summary of Basis for Liquidation Procedure)
00318	Loan Guaranty Division - Extension of the Validity of Liquidation Appraisals
00322	Loan Guaranty - Requests for Reconsideration of Reasonable Value
00323	Loan Guaranty Division - Require Builders to Submit Plans and Specifications in a Reduced Legal Size Format (Conditionally Approved)
00324	Loan Guaranty - Obtain Authority to Permit Compliance Inspectors to Approve Change Orders for Proposed Construction Which Do Not Involve Value
00325	Loan Guaranty Division - Automatic Processing of Rate Reduction Refinance Applications
00326	Loan Guaranty - Non-Supervised Lenders Closing Loans Involving More Than One Living Unit
00332	Veterans Services Division (VAMC locations) - Record Card File
00333	Veterans Services Division (VAMC Locations) - Interviews with Patients who may be eligible for Vocational Rehabilitation
00334	Veterans Services Division - Spouse Payee (Approved--Seek Change in Regulation)
00335	Veterans Services Division - Supervised Direct Payment (Field Examination)
00336	Veterans Services Division, Fiduciary and Field Examination Unit - Scheduling Field Examinations - Special Problems
00337	Veterans Services Division, Fiduciary and Field Examination Unit - Scheduling Field Examinations (Dependents)
00338	Veterans Services Division, Fiduciary and Field Examination Unit - Coordination with Social Work Service Personnel
00339	Veterans Services Division, Fiduciary and Field Examination Unit - Certification of Payees to Certification
00340	Veterans Services Division, Fiduciary and Field Examination Unit - Supervisory Visits
00341	Veterans Services Division, Education Services Unit - Statistical Quality Control
00343	Adjudication - Retroactive Check Verification
00346	Adjudication - Authorization - Dual Payee's
00349	Adjudication - Target Development
00354	Loan Guaranty Division - Property Management - Certificates of Reasonable Value Distribution Procedures
00365	Veterans Services Division - Completion of VA Form 22-1936, Compliance Survey Worksheet for Eligible Students Pursuing Training Under Chapter 34 or 35 (Hines)
00366	Veterans Services Division - Veterans Assistance Section - Issuance of VA Form 26-8320, Certification of Eligibility for Loan Guaranty Benefits

00367	Veterans Services Division - Completion of VA Form 22-1936, Compliance Survey Worksheet for Eligible Students Pursuing Training Under Chapter 34 or 35 (Hines)
00369	Veterans Service Division - Compliance Survey End Products
00373	Education Benefits - Unsatisfactory Progress Case Development (Grant Upon Change in Legislation)
00376	Loan Guaranty Division - Approval of Trading Margin by Property Management Section
00379	Mailroom - Metering Express Mail
00380	Adjudication - BSSI Requests
00381	Los Angeles VARO Director's Office - SAO - Overtime Cost/Effectiveness Analysis
00383	Adjudication - 501 Screen for Authorizing Awards - Target
00384	Adjudication - Chapter 106 Single Signature Authority
00385	Adjudication - Drop Filing Computer Generated Education Award Letters
00386	Veterans Benefits - Monthly Schedule of Operations: Compensation/Pension, Education
00387	Veterans Services and Adjudication - Target Enhancement - Prohibition to Accepting Information Given Via Telephone Without a Predetermination Notice (Conditionally Grant Cite Conditions: Predetermination Notice a Must)
00389	Fiduciary and Field Examination - Field Examination - Helpless Children
00390	Adjudication (Claims Processing) - Prohibition of Accepting Private Power of Attorney (POA) Signatures for Competent Claimants (Grant Pending Change in Regulation)
00393	Adjudication - Authorization - Eligibility Verification Reports - Size of Letters and Numbers in Certain Fields
00394	Loan Guaranty Committee on Waivers - Out-of-State COW Hearings
00395	Education Services - Liaison and Approval Actions - Class Schedules - Non-College Degree Residence (Grant Pending Change in Legislation)
00396	Compliance Surveys - Unannounced Compliance Survey Visits
00401	Adjudication - Location of File Numbers on VA Forms
00404	Adjudication - Issuing Presidential Memorial Certificates
00408	Vocational Rehabilitation and Counseling Division - Record of Standard Outreach Activities
00409	Veterans Services Division - AMIS Segment J70
00411	Adjudication - Post Delimiting Date Loans Report
00412	Veterans Educational Benefits - Absence Reporting at NCD Institutions Closed for Inclement Weather (Grant Pending Change in Regulation)
00413	Records Management - Records Inventory Management System
00417	Loan Guaranty Division - Loan Service and Claims Section - Refunding of Loan with Reduced Interest Rate
00422	Vocational Rehabilitation and Counseling - Monthly Follow-Up of Employed Veterans with Lengthy Probationary Periods (Granted Pending Change in Regulation)
00425	Loan Guaranty Division - Clearing Conditions on the Certificate of Reasonable Value (Granted for Milwaukee and Winston-Salem)
00434	Veterans Services Division - Fiduciary and Field Examination Unit - Social Work Service Reports
00498	Veterans Services Division - Target Control for Veterans Assistance Inquiries

APPROVED VA MEDICAL CENTER WAIVERS

Waiver No.	Description
00046	Director for Operations - Requests for Organizational Changes
00049	Medical Administration Service - Requests for Changes in Designation of Inpatient Beds
00050	Engineering Service - Methods of Construction
00053	Supply Service - VA Form 07-2268 or 90-2268 (Conditionally Approved)
00054	Supply Service - UPS - Documentation on Delivery Record
00056	Fiscal - Local Payment of All Invoices
00058	Fiscal - Negotiations on Amounts Paid for Permanent Change of Station PCS Move (Approved Pending Approval of External Agency)
00062	Personnel Service - Remove $15,000 Consultant Payment Limitation
00065	Personnel Service - Remove Dual Compensation Restriction
00067	Personnel Service - Allow Local Title 38 Discharge/Removal During Probation
00070	Personnel Service - Board Actions for Changes from Part-Time (Conditionally Approved)
00071	Personnel Service - Keeping Unselected Nurse Applications for One-Year Basis Before Discarding
00076	Veterans Canteen Service - Use of Local Source for Items Carried in Retail Store
00077	Psychology Service - Annual Narrative Report
00078	Quality Assurance Program - A-123: Reporting of Vulnerability Assessments
00092	Pay Administration - Exceptions
00093	Pay Administration - Dual Appointment and Pay of Residents (RCS 10-0051)
00094	Office of Facilities - Authority to Delegate Approval of Completion Items on Replacement Medical Center Projects to the Medical Center Director (Conditionally Approved)
00095	Systems Development Office - Staffing Guidelines for IM&S
00247	Nursing Administration - Elimination of Nursing Service Annual Report
00250	Organization of Services with VAMC Service Status for Biomedical Instrumentation Section of Engineering Service
00285	Rehabilitation Medical Service - Report for CWI, IT&TPP
00286	Medical Administration Service - Outpatient Quarterly Admission Processing Time Study (Conditionally Granted)
00329	Library Service - Disposition of Excess Medical Library Books
00355	Dental - Eligibility Processing for Emergency Dental Patients
00356	Supply Service - Report of Survey Reporting
00362	Chaplain Service- Narrative Report
00421	Community Nursing Home Care Program/Extended Care - Approval to Place Veterans in Community Nursing Homes

APPROVED VA DATA PROCESSING CENTER WAIVERS

Waiver No.	Description
00482	Austin DPC Proposed Waiver of Regulations/Procedures (Personnel Management)

Question: 26. When will the Administrator transmit to the Committee, under section 219(c) of title 38, a copy of the Office of Program Analysis and Evaluation cost-benefit study/program evaluation that was initiated in July 1985 of the VA's vocational rehabilitation program?

Answer: The Office of Program Analysis and Evaluation provided an option briefing to the Rehabilitation Advisory Committee in September 1985. The Committee discussed the options presented and approved the project protocol in May of 1986 which marks the start date for this project. In October 1986, the scope of the study was broadened making it a program evaluation. The data collection effort for this project will largely be done by contract. Funding uncertainty this year due to the delayed appropriation has forced a significant delay in awarding the contract. While the award of the contract is crucial to projecting the completion date of the study, we are now projecting a completion date of May 1990. That is predicated on a contract award date not later than April 30, 1988.

QS 27: What is the status of the implementation of each of the nine major recommendations contained in the "Cost-Effectiveness Study of School Liability Procedures Under 38 U.S.C. Section 1785", which was initiated in November 1985 and published in February 1987?

ANSWER 27: Recommendation 1: Require Beneficiaries at Institutions of Higher Learning to Verify Their Enrollments Monthly Instead of Annually.

We have established certification procedures for the Montgomery GI Bill (Chapter 30) whereby students enrolled in institutions of higher learning who are receiving benefits verify their own enrollment monthly.

Recommendation 2: Enforce VARO Compliance with Existing Procedures to Process Changes, Terminations, and Reductions Within Two Days.

Compliance with two day processing requirements has been vigorously enforced. The study included cases drawn from 1984 through 1985. At that time, error trends involving two day processing were frequently identified. Such error trends are now rare.

Recommendation 3: Retain Section 1785 of title 38 USC.

No action has been taken to initiate any changes to 38 USC 1785 (school liability requirements).

Recommendation 4: Improved Communication and Coordination are Required Between the Veterans Administration and Higher Education Community.

Members of the education community participate in the Administrator's Educational Advisory Committee and the Commission to Assess Veterans Education Policy. These groups include the American Council on Education, the American Association of Community and Junior Colleges and the National Association of Veterans Program Administrators.

Recommendation 5: Implement a Targeted Approach to Compliance Surveys by Using the Education Master File.

We have initiated action to target compliance surveys. Management reports have been revised to include both overpayment and potential school liability data. These reports are reviewed periodically and priority for surveys is given to schools which appear to need assistance based on report data. Legislation has been requested which would allow the Agency to waive required surveys at schools that have a demonstrated record of compliance.

Recommendation 6: Pursue the Continued Enrollment Verification Test.

The continued enrollment verification (CEV) test is now concluded. An evaluation of the CEV procedure is in progress and its adoption is under consideration for all IHL enrollments.

Recommendations 7 and 8: Retain and Reemphasize the Most Cost-Effective Aspects of the Procedures and Improve the Least Cost-Effective Aspects.

Schools which appear to be having difficulty are routinely reported by regional offices and are closely followed by Central Office staff. Instruction, guidance and, when necessary, intervention by CO staff ensure that the most cost-effective options under the school liability procedures are followed.

Recommendation 9: Rewrite the School Liability Procedures to Improve the Most Ineffective Aspects.

The study found that the established procedures, while complex, were clearly written. We believe, moreover, that they are only now coming to have an established pattern of usage so that any significant revision at this time would be both confusing and counterproductive. In addition, while we are continuing to review the procedures for possible improvement, we believe it prudent to await the results of our implementation of other study recommendations before determining what, if any, circular revision might be appropriate.

Recommendation 10: Retain and Reemphasize the Most Effective Procedural Aspects of the School Liability Process.

See responses to recommendations 7, 8, and 9.

Question: 28. What is the status of the invitation-for-bid (IFB) process from the procurement of additional hardware for the installation of the "Core Plus 8" modules for the Decentralized Hospital Computer Program. Please provide a milestone date for each stage of the IFB through the selection of the vendor stage.

Answer: The status of the requests for proposals (RFPs) for the procurement of additional hardware for the Decentralized Hospital Computer Program are as follows:

RFP	Activity	Estimated Milestone Date*
RFP 101-5-87 (Replacement Computer Configurations)	o Issue Request for best and final offers	1/27/88
	o Receive best and final offers	2/24/88
	o Award contract	Mid March 1988
RFP 101-16-87 (Receive Only Printers)	o Complete proposal evaluations	2/29/88
	o Complete equipment testing	4/14/88
	o Issue Request for best and final offers	Early May 1988
	o Receive best and final offers	Mid May 1988
	o Award contract	Early June 1988
RFP 101-13-87 (Bar Code Readers)	o Complete equipment testing	3/11/88
	o Issue request for best and final offers	Late March 1988
	o Receive best and final offers	Mid April 1988
	o Award contract	Late April 1988
RFP 101-12-87** (Video Display Terminals)	o Publish Commerce Business Daily Notification	2/22/88
	o Issue RFP	3/7/88
	o Proposals Due	4/6/88
	o Complete Proposal evaluations	6/6/88
	o Request best and final offers	Mid to Late June 1988
	o Receive best and final offers	Mid July 1988
	o Award contract	Late July 1988

* Projected dates assume no delays due to bid protests or other uncontrollable events.

** The RFP was cancelled. No vendor met the VA's minimum technical requirements. The RFP will be re-issued as described in the schedule above.

QUESTION 29(a): The Loan Guaranty Revolving Fund (LGRF) has needed substantial appropriations in recent years -- $389.8 million in FY 1987 alone. What factors account for the LGRF revenue shortfall, and what is being and can be done to improve the LGRF's financial solvency and stability?

NOTE: In FY 1987, $100 million was provided in a supplemental for this program. The 1988 appropriation was $389.8 million.

ANSWER 29(a): The substantial increases in the cost of the VA home loan guaranty program over the past 10 years have come not from staff and operating costs (GOE), but claims made against the Loan Guaranty Revolving Fund, due to increasing numbers of defaults and foreclosures.

We are addressing these problems on several fronts. VA is planning a pilot test of the impact of increased levels of servicing on loan foreclosure rates. Additional loan service technicians will be hired in one regional office, to determine the cost/benefit relationship between additional loan servicing and reduced claims.

The cost of liquidation appraisals, formerly paid from the Revolving Fund, is now paid by the lender, and included in the lender's claim, which may be recovered from the borrower through the debt collection process.

Steps have been taken to shorten time of foreclosure on loans in insoluble default, thus reducing VA's holding time and costs substantially.

QUESTION 29(b): The Loan Guaranty Revolving Fund (LGRF) has needed substantial appropriations in recent years -- $389.8 million in FY 1987 alone. With respect to any FY 1988 supplemental appropriations request and FY 1989 appropriations requests for the LGRF, please provide a breakdown showing how much of each request is attributable to each such factor.

NOTE: In FY 1987, $100 million was provided in a supplemental for this program. The 1988 appropriation was $389.8 million.

ANSWER 29(b): Obligations (net of vendees) have increased $928.7 million over the 1988 President's Budget level. The primary increase is associated with acquiring 14,710 additonal property acquisitions (62 percent) totaling $575.7 million over the original budget estimate. The number of claim payments have also risen by [illegible] (67 percent) thereby increasing costs by $289.1 million. An additional $63.9 million increase is associated with loan repurchases, property management expense, sales expense, etc.

The receipts to the Fund have been maximized primarily through the sale of an additional $391.6 million properties sold for cash. The estimated 1988 funding deficiency as reflected in the budget is $526.6 million.

Between FYs 1984 and 1987, it is estimated that the number of FTEE in the home loan program increased only 1.6 percent while the number of loan originations increased 74.9 percent, the number of defaults on VA-guaranteed loans increased 22.9 percent, the number of foreclosures on such loans increased 49.1 percent, and the number of VA-acquired foreclosed properties increased 34.1 percent.

QUESTION 30(a)(i): What has been the effect of the substantial FTEE decline relative to workload on the timeliness and quality of loan guaranty services, including loan originations.

ANSWER 30(a)(i): There is no question that timeliness of service to veterans, particularly in the issuing of certificates of reasonable value was affected in FY 1986 and early FY 1987. The sharp drop in interest rates created a tremendous demand on the entire real estate industry. Lenders, appraisers, closing attorneys, land surveyors, etc., were all overloaded with work. Because VA relies heavily on the private sector in the delivery of the home loan benefit, many of the timeliness problems were beyond agency control. However, we believe we did a good job in coping with the extra workloads without wholesale increases in the permanent workforce. We utilized contract funds, overtime and shifting of personnel within regional offices to respond to this demand for services. In addition, our own reviews do not indicate that the quality of service or internal work processes deteriorated during this period. Currently, we are meeting our timeliness and quality criteria for the loan origination process. Now that the demand for loan originations has dropped significantly from its 1986 and 1987 levels, staff is being shifted to focus on disposing acquired properties and improved servicing to avoid foreclosure.

QUESTION 30(a)(ii): What has been the effect of the substantial FTEE decline relative to workload on the timeliness and quality of loan guaranty services, including loan servicing and financial counseling for veterans in default on VA-guaranteed loans.

ANSWER 30(a)(ii): Defaults and foreclosures have been very high due to the economic problems in Texas, Colorado, Oklahoma and other States. We have increased employment in the loan service function by 7.1 percent between FY 1984 and FY 1987 while the size of our own portfolio of vendee loans has decreased sharply. This has allowed more FTE to concentrate on GI loan defaults and financial counseling when appropriate. The level of new defaults on GI loans did not increase in FY 1987 (182,058) over FY 1986 (182,371), while available FTE in the loan service function increased by 43.2. We believe that the quality and timeliness has been adequate. Servicing letters are automatically generated to borrowers at set intervals and program management has been continually stressing the importance of personal contacts with delinquent borrowers.

QUESTION 30(a)(iii): What has been the effect of the substantial FTEE decline relative to workload on the timeliness and quality of loan guaranty services, including property management and disposition.

ANSWER 30(a)(iii): VA sold 27,910 properties in FY 1986, a 20.7 increase over FY 1985. In FY 1987 VA sold 34,181 properties, an increase again of 22.5 percent over the previous year. The average holding time for properties has improved over the last three fiscal years. In FY 1985 the average holding time was 10.6 months. In FY 1986 this improved 17 percent to 8.8 months and then decreased again in FY 1987 to 8.0 months. The increases in total property sales and improvements in holding times have been accomplished in the face of record high foreclosures (acquisitions) and little increase in staffing. We have taken important steps to speed up the marketing of acquired properties: increased broker's commissions and bonuses for cash sales; use of private sector property listing services; computer based "bulletin boards" to speed up distribution of listings to local brokers, etc. Despite the increased workload in relation to staffing we believe that an adequate level of quality has been maintained.

QUESTION 30(b)(i): What are the VA's standards for timeliness and quality control for loan originations.

ANSWER 30(b)(i): (a) 90 percent of the individual certificates of reasonable value should be issued within 20 calendar days from the date the request was received.

The accuracy and compliance (quality) standard for this end product is 4.5 defects per 100 questions on the quality schedule.

(B) 90 percent of the master certificates of reasonable value should be issued within 40 calendar days from the date the request was received.

The accuracy and compliance standard for this end product is 3.0 defects per 100 questions on the quality schedule.

(C) 90 percent of the reconsideration of value requests should be completely processed within 20 calendar days from the date the request was received.

An accuracy and compliance standard has not been established for this end product. The accuracy and compliance standards for the other end products in Loan Guaranty, however, range from 1.0 to 4.5 defects per 100 questions on the quality schedule.

(D) 95 percent of the requests for eligibility and restoration of entitlement should be processed within 5 calendar days from the date the request was received.

The accuracy and compliance standard for these end products is 1.0 defects per 100 questions on the quality schedule.

(E) 85 percent of the applications for commitment that are eventually approved should be processed within 10 calendar days from the date the application was received.

The accuracy and compliance standard for this end product is 2.0 defects per 100 questions on the quality schedule.

(F) 85 percent of the applications for commitment that are eventually denied should be processed within 10 calendar days from the date the application was received.

The accuracy and compliance standard for this end product is 2.2 defects per 100 questions on the quality schedule.

(G) 95 percent of the guaranties should be issued within 30 calendar days from the date the request was received.

The accuracy and compliance standard for this end product is 1.2 defects per 100 questions on the quality schedule.

QUESTION 30(b)(ii): What are the VA's standards for timeliness and quality control for loan servicing and financial counseling for veterans in default on VA-guaranteed loans.

ANSWER 30(b)(ii): 100 percent of the notices of default and notices of intention to foreclose should be entered into LCS (Liquidation Claims System) within 10 calendar days from the date the notices are received. LCS automatically generates servicing letters to veterans in default.

Whenever appropriate the VA conducts personal supplemental servicing and financial counseling for veterans in default on VA-guaranteed loans.

The accuracy and compliance standard for servicing VA-guaranteed loans in default is 2.9 defects per 100 questions on the quality schedule.

QUESTION 30(b)(iii): What are the VA's standards for timeliness and quality control for property management and disposition.

ANSWER 30(b)(iii): (A) 85 percent of the offers accepted should be accepted within 31 calendar days from the date the offer is received.

(B) 80 percent of the offers closed should be closed within 25 calendar days from the date the offer is accepted.

(C) The accuracy and compliance standard for initial property analyses is 4.4 defects per 100 questions on the quality schedule.

(D) The accuracy and compliance standard for property sales is 1.9 defects per 100 questions on the quality schedule.

(E) The accuracy and compliance standard for properties repaired is 2.8 defects per 100 questions on the quality schedule.

QUESTION 30(c): How many FTEEs in addition to those for which funding is proposed in the Administration's FY 1989 budget would be required in FY 1989 for regional office loan guaranty divisions to be able to meet the VA's standards for timeliness and quality control in each area listed in (b), above?

ANSWER 30(c): VA will be able to meet the established timeliness standards and quality criteria on a national basis with the FTEE requested in the FY 1989 budget submission.

QUESTION 31(a): Please provide for each of FYs 1985 through 1987 the number and percentage of foreclosures which occurred during each of the first five years of the loan for VA-guaranteed conventional housing loans.

ANSWER 31(a): Fiscal Year 1987 Foreclosures: 43,353

Age of Loan	Number	Percentage
0 to 1 year	217	.5
1 to 2 years	4,661	10.75
2 to 3 years	7,282	16.8
3 to 4 years	8,563	19.75
4 to 5 years	5,102	11.77

Of all loans foreclosed in FY 1987, 25,825, or 59.6 percent were foreclosed within five years of origination.

Fiscal Year 1986 Foreclosures: 33,545

Age of Loan	Number	Percentage
0 to 1 year	257	.77
1 to 2 years	4,438	13.23
2 to 3 years	7,326	21.84
3 to 4 years	4,803	14.32
4 to 5 years	3,139	9.36

Of all loans foreclosed in FY 1986, 19,963, or 59.5 percent were foreclosed within five years of origination.

Fiscal Year 1985 Foreclosures: 28,096

Age of Loan	Number	Percentage
0 to 1 year	340	1.21
1 to 2 years	5,054	17.99
2 to 3 years	4,792	17.06
3 to 4 years	3,976	14.15
4 to 5 years	4,308	15.33

Of all loans foreclosed in FY 1985, 18,470, or 65.7 percent were foreclosed within five years of origination.

QUESTION 31(b): Please provide for each of FYs 1985 through 1987 the number and percentage of foreclosures which occurred during each of the first five years of the loan for VA-guaranteed manufactured housing loans.

ANSWER 31(b): Fiscal Year 1987 Foreclosures: 5,049

Age of Loan	Number	Percentage
0 to 1 year	219	4.34
1 to 2 years	881	17.45
2 to 3 years	1,203	23.83
3 to 4 years	1,018	20.16
4 to 5 years	677	13.41

Of all manufactured housing loans foreclosed in FY 1987, 3,998, or 79.18 percent were foreclosed within five years of origination.

Fiscal Year 1986 Foreclosures: 4,735

Age of Loan	Number	Percentage
0 to 1 year	413	8.72
1 to 2 years	1174	24.79
2 to 3 years	1,103	23.29
3 to 4 years	835	17.63
4 to 5 years	537	11.34

Of all manufactured housing loans foreclosed in FY 1986, 4,062, or 85.79 percent were foreclosed within five years of origination.

Fiscal Year 1985 Foreclosures: 3,924

Age of Loan	Number	Percentage
0 to 1 year	487	12.41
1 to 2 years	1079	27.50
2 to 3 years	969	24.69
3 to 4 years	673	17.15
4 to 5 years	342	8.72

Of all manufactured housing loans foreclosed in FY 1985, 3,550, or 90.47 percent were foreclosed within five years of origination.

QUESTION 31(c): Please provide for each of FYs 1985 through 1987 the number and percentage of foreclosures which occurred during each of the first five years of the loan for vendee loans.

ANSWER 31(c): Comparable data on vendee loan foreclosures is not readily available at this time.

QUESTION 31(d): Please provide for each of FYs 1985 through 1987 the number and percentage of foreclosures which occurred during each of the first five years of the loan for assumptions of VA-guaranteed loans.

ANSWER 31(d): Comparable data on foreclosures of assumed VA-guaranteed loans is not readily available at this time. However, figures on the percent of loans which were owned by transferees at the time of liquidation are as follows:

Fiscal Year	Liquidations	% Transferees
1985	29,075	12.5
1986	34,815	15.0
1987 (Report not yet available)		

QUESTION 31(e): Please provide for each of FYs 1985 through 1987 the number and percentage of foreclosures which occurred during each of the first five years of the loan for assumptions of vendee loans.

ANSWER 31(e): Comparable data on assumed vendee loans is not readily available at this time.

QUESTION 32: Please provide, separately for FY 1987 and each of the four preceding fiscal years, for VA-guaranteed loans and for vendee loans separately, the following: (a) the number of loans which went into default; (b) the number of loans on which defaults were cured; (c) the default cure rate on loans where the borrower: (i) received personal financial counseling (by telephone, office visit, or field visit) from VA employees; (ii) did not receive such personal financial counseling from VA employees; and (iii) received such personal financial counseling from someone other than VA, such as the loan holder or its servicing agent.

ANSWER 32: VA-Guaranteed Loans

Fiscal Year	Defaults	Defaults Cured	Cure Rate
1983	154,299	122,845	85.43%
1984	148,243	120,232	83.06%
1985	159,095	121,210	82.26%
1986	169,841	123,972	80.82%
1987	171,059	123,984	77.14%

Primary servicing of GI loans in default is performed by the loan holder, before and after the default is reported to VA. We do not maintain records of such servicing in our system, and cannot provide the information requested in (c)(iii). Information regarding items (c)(i) and (c)(ii) is not readily available. We are unable to estimate such information.

Vendee loans. Information regarding defaults and cures on vendee loans is not readily available. We are unable to estimate such information. However, foreclosures on vendee loans by year of origination is as follows (as of 2/1/88):

Year of origination	Foreclosures	% Foreclosed
FY 1983	2,494	14.1%
FY 1984	3,103	15.4%
FY 1985	2,246	11.1%
FY 1986	773	4.1%
FY 1987	81	.4%

Section 1816(a)(4) of title 38 (as enacted in section 4 of Public Law 100-198) generally requires the VA, during the 3-year period from March 1, 1988, to March 1, 1991, to provide veterans which the VA has been notified are in default on VA-guaranteed loans with loan servicing, including specified financial information and, to the extent feasible, counseling, to help veterans avoid foreclosure on such loans. An exception is provided with respect to loans made by lenders found to have a demonstrated record of providing veterans with timely and accurate information.

QUESTION 33(a): What steps is the VA taking to implement this provision?

ANSWER 33(a): When a VA-guaranteed loan default is reported to VA by the lender, VA sends the veteran a computer-generated letter which provides advice concerning what actions might be taken to reinstate the loan. The letter presently offers advice concerning financial counseling offered by VA. The letter is being expanded to provide a list (and explanation) of options available for reinstatement of the loan or avoidance of foreclosure. Also included in the revision is a warning concerning the fact that the veteran may remain liable for the debt if the loan is not satisfied when the property is sold. The warning notes that the veteran should contact VA before selling his or her home for information on obtaining a release of liability.

QUESTION 33(b): How many, if any, additional FTEEs in addition to those for which funding is proposed in the Administration's FY 1989 budget would be needed to implement this provision?

ANSWER 33(b): We believe that there are sufficient resources within our budget request to comply with the provision of Public Law 100-198.

QUESTION 33(c): How many, if any, additional FTEEs in addition to those for which funding is proposed in the Administration's FY 1989 budget would be needed for the VA to provide counseling to all veterans in default on such loans?

ANSWER 33(c): Appropriate counseling can be provided by VA and/or lenders to all delinquent borrowers who can be reached and are willing to be counseled. This can be accomplished within the FTE level of our FY 1989 budget request.

QUESTION 33(d): Taking into account long-term as well as short-term costs and savings, would it be cost-effective for the VA to provide personal counseling for all veterans in default on VA-guaranteed loans?

ANSWER 33(d): Personal counseling is cost-effective in cases where veterans can be contacted and indicate a willingness to workout their financial difficulties.

QUESTION 33(e): If not, for what proportion of such veterans would it be cost-effective for the VA to do so?

ANSWER 33(e): See response to question 33(c) and (d) above.

QUESTION 34: Please provide, separately for FYs 1986 and 1987, data showing the average amount of time between the VA's acquisition of a foreclosed property and disposition of it, with data provided separately for the Houston, Waco, Denver, Muskogee, and Los Angeles regional offices, as well as for the VA nationally.

ANSWER 34: The following shows VA's holding time, in months, for FYs 1986 and 1987:

	U.S.	Houston	Waco	Denver	Muskogee	Los Angeles
FY '87	8.0	12.0	5.9	7.9	5.4	7.9
FY '86	8.8	8.9	8.7	7.6	7.8	10.5

QUESTION 35(a): How does VA determine its list price for VA-acquired foreclosed properties?

ANSWER 35(a): List prices for VA-acquired properties are generally established on the basis of (1) an opinion of market value furnished to VA by a qualified local fee appraiser; (2) an opinion of market value provided by a local fee basis management broker; and (3) VA's own estimate of value based on recent comparable property sales in the locality. In pricing acquired properties, VA tries to establish initial list prices at levels that will result in the expeditious sale of properties and will, at the same time, allow for the maximum recapture of the money paid by the Government to acquire such properties after foreclosure.

QUESTION 35(b): When and how often will a foreclosed property be appraised?

ANSWER 35(b): VA acquired properties are generally appraised just prior to foreclosure and again immediately after transfer of the property to VA by the holder. Our policy directives require that subsequent appraisals be made at least every six months, however, field stations are also directed to continuously examine market factors once a property is listed for sale to make appropriate revisions in sales prices as conditions dictate. Listed prices are reevaluated timely when a property has not sold at a given list price within a reasonable period of time.

QUESTION 36(a): Please provide for VA-acquired foreclosed properties, separately for FY 1987 and each of the four preceding fiscal years, with data provided separately for the Houston, Waco, Denver, Muskogee, and Los Angeles regional offices, as well as for the VA nationally, the average foreclosure appraisal price.

ANSWER 36(a): The average foreclosure appraisal prices for the nation and selected stations for fiscal years 1983 through 1987 are shown below.

FYs	1987	1986	1985	1984	1983
Houston	$50,331	$53,296	$56,168	$51,952	$46,047
Waco	50,943	48,334	47,961	49,528	49,195
Denver	62,782	60,899	60,105	59,274	56,233
Muskogee	42,302	41,991	43,218	38,038	36,101
Los Angeles	77,389	76,612	76,804	76,616	73,609
U.S. Avg.	49,249	47,413	45,951	42,592	41,408

QUESTION 36(b): Please provide for VA-acquired foreclosed properties, separately for FY 1987 and each of the four preceding fiscal years, with data provided separately for the Houston, Waco, Denver, Muskogee, and Los Angeles regional offices, as well as for the VA nationally, the average amount paid to the lender under the guaranty.

ANSWER 36(b): The average amounts paid to lenders under guaranty for the nation and selected stations for fiscal years 1983 through 1987 are shown below.

FYs	1987	1986	1985	1984	1983
Houston	$11,634	$10,157	$7,108	$4,192	$1,481
Waco	8,983	7,747	6,108	5,174	3,386
Denver	13,834	12,115	9,687	6,347	4,464
Muskogee	12,816	11,467	9,479	7,129	4,951
Los Angeles	14,227	13,732	12,101	10,621	6,257
U.S. Avg.	11,182	10,215	8,560	6,923	4,752

QUESTION 36(c): Please provide for VA-acquired foreclosed properties, separately for FY 1987 and each of the four preceding fiscal years, with data provided separately for the Houston, Waco, Denver, Muskogee, and Los Angeles regional offices, as well as for the VA nationally, the average list price.

ANSWER 36(c): VA does not currently maintain data on the average list prices for properties in its inventory.

QUESTION 36(d): Please provide for VA-acquired foreclosed properties, separately for FY 1987 and each of the four preceding fiscal years, with data provided separately for the Houston, Waco, Denver, Muskogee, and Los Angeles regional offices, as well as for the VA nationally, the average net sales price.

ANSWER 36(d): The net sales prices for properties sold nationwide and by select regional offices for fiscal years 1983 through 1987 are shown below.

FYs	1987	1986	1985	1984	1983
Houston	$35,987 (5,210)	$43,052 (4,729)	[illegible] (5,102)	$51,576 (4,824)	$51,863 (4,654)*
Waco	42,445 (3,826)	44,037 (4,156)	43,536 (3,997)	51,772 (4,920)	51,524 (5,705)*
Denver	49,116 (6,130)	51,763 (5,796)	50,316 (5,482)	59,085 (5,721)	55,533 (7,277)*
Muskogee	33,329 (2,719)	34,558 (3,000)	40,504 (3,469)	38,424 (3,857)	37,429 (4,364)*
Los Angeles	77,980 (9,115)	74,227 (8,710)	74,502 (9,000)	77,186 (8,541)	74,389 (8,659)*
U.S. Avg.	43,713 (5,179)	43,367 (5,150)	41,359 (5,368)	41,035 (5,016)	40,515 (5,127)*

*The upper figure in each field is the average sales price. The lower figure, in parentheses, is the average VA expense after acquisition and through the date of sale: management fees, repairs costs, taxes and special assessments, and sales commissions.

QUESTION 37: Please provide separately for FYs 1986 and 1987 and estimates for FY 1988: (a) the number of sales held of vendee loans with recourse; (b) the number of sales held of vendee loans without recourse; (c) the date of each sale; (d) the number and total face value of loans offered at each sale; (e) the number of and total price paid for loans sold at each sale; (f) the costs incurred in each sale, including both the amount and a description of such costs; and (g) the amount of the reason for any premium paid or discount given on loans at each type of such sales.

ANSWER 37: The following describes actual and planned loan sales for FY 1988. The nonrecourse sales estimates are tentative because we are not certain what marketing technique will be used. The financial advisor is still studying this issue.

Also attached are results of all loan sales conducted since the beginning of FY 1986 describing amounts, interest rates, prices, discounts, premiums, etc.

FY 1988

Sales with recourse - 2 completed

Sales without recourse - 3 planned

DATE	OFFERED		SOLD	
	No.	AMOUNT	No.	AMOUNT
11-17-87 Recourse	5062	$205,870,000	4076	$167,229,363
			Price	156,769,236
			Net Discount	$ 10,460,127

9 interest rates were sold
8-1/2% - 10% loans sold at discounts of $11,909,611
11% - 13-1/2% loans sold at premiums of 1,449,484

Reason: Relative value of mortgage coupon rates at market.

DATE	OFFERED		SOLD	
2-9-88 Recourse	5303	$222,208,000	5191	$219,332,000
			Price	220,477,000
			Net Premium	$ 1,145,000

6 interest rates were sold
8-1/2% - 9-1/2% loans sold at discounts of $ 3,017,000
10% - 11% loans sold at premiums of 4,162,000

Reason: Relative value of mortgage coupon rates at market.

June 1988 planned sale without recourse

Estimated offering		$170,000,000
	Price	128,000,000
	25% Net Discount	$ 42,000,000

Preliminary budget estimates of sale of new loans.
Marketing plan not yet formulated by our Financial Advisor.

July 1988 planned sale without recourse

Estimated offering		$300,000,000
	Price	150,000,000
	50% Net Discount	$150,000,000

Preliminary budget estimates of sale of other existing loans at lesser quality.

Market plan not yet formulated by our Financial Advisor.

September 1988 planned sale without recourse

Estimated offering		$210,000,000
	Price	158,000,000
	25% Net Discount	$ 52,000,000

Preliminary budget estimates of sale of new loans.

Market plan not yet formulated by our Financial Advisor.

VA LOAN SALE RESULTS — Q 376

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE
AUCTION OF VA VENDEE ACCOUNTS ON SEPTEMBER 8, 1987
(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED		ACCEPTED		PRICE ACCEPTED	YIELD
		NO.	AMOUNT	NO.	AMOUNT		
1	8.5% M	732	$34,155				
1A	8.5% M			425	$17,750	76.45500	12.47084
1B	8.5% M			117	$5,149	77.55000	12.24908
1C	8.5% M			185	$11,107	72.95985	13.21079
1D	8.5% M			5	$149	84.75000	10.89544
	TOTALS			732	$34,155		
2	8.5% C	200	$7,436				
2A	8.5% C			145	$5,729	76.45500	12.47084
2B	8.5% C			55	$1,707	72.94804	13.21338
	TOTALS			200	$7,436		
3	9.0% M	990	$41,021				
3A	9.0% M			728	$30,700	80.41500	12.25984
3B	9.0% M			144	$6,145	80.47000	12.24913
3C	9.0% M			117	$4,145	77.04481	12.93696
3D	9.0% M			1	$31	87.75000	10.91873
	TOTALS			990	$41,021		
4	9.0% C	215	$6,781				
4A	9.0% C			148	$4,989	80.41500	12.25984
4B	9.0% C			67	$1,792	~~76.80441~~	~~12.98692~~
	TOTALS			215	$6,781		
5	9.5% M	1,003	$47,826				
5A	9.5% M			794	$34,096	84.86000	11.97982
5B	9.5% M			202	$13,471	81.98552	12.52317
5C	9.5% M			5	$193	90.25000	11.02938
	TOTALS			1,001	$47,760		
6	9.5% C	320	$11,548				
6A	9.5% C			226	$8,762	84.86000	11.97982
6B	9.5% C			94	$2,786	81.61540	12.59515
	TOTALS			320	$11,548		
7	10.0% M	531	$24,354				
7A	10.0% M			449	$19,790	88.67000	11.83787
7B	10.0% M			80	$4,439	85.47083	12.41916
7C	10.0% M			2	$125	93.37500	11.03802
	TOTALS			531	$24,354		
8	10.0% C	210	$7,288				
8A	10.0% C			152	$5,692	88.67000	11.83787
8B	10.0% C			58	$1,596	85.03477	12.50085
	TOTALS			210	$7,288		
	GRAND TOTALS	4,201	$180,400	4,199	$180,343		
			PREMIUM		$0		
			DISCOUNT		$32,958		
			NET SALE		$147,385		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE
AUCTION OF VA VENDEE ACCOUNTS ON JULY 7, 1987
(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED		ACCEPTED		PRICE ACCEPTED	YIELD
		NO.	AMOUNT	NO.	AMOUNT		
1	8.5% M	1,048	$50,717				
1A	8.5% M			24	$761	92.00000	9.68780
1B	8.5% M			6	$168	90.31000	9.95711
1C	8.5% M			703	$29,092	88.60000	10.23687
1D	8.5% M			315	$20,696	85.79580	10.71243
	TOTALS			1,048	$50,717		
2	8.5% C	321	$10,796				
2A	8.5% C			253	$9,102	88.60000	10.23687
2B	8.5% C			68	$1,694	85.71021	10.72729
	TOTALS						
3	9.0% M	1,323	$54,263				
3A	9.0% M			31	$1,010	94.00000	9.89604
3B	9.0% M			1	$30	92.81000	10.08326
3C	9.0% M			1,162	$48,008	91.61400	10.27484
3D	9.0% M			129	$5,215	89.17349	10.67694
	TOTALS			1,323	$54,263		
4	9.0% C	[illegible]	[illegible]				
4A	9.0% C			214	$6,988	91.61400	10.27484
4B	9.0% C			55	$1,428	88.96821	10.71147
	TOTALS			269	$8,416		
5	9.5% M	226	$8,912				
5A	9.5% M			7	$213	97.00000	9.94743
5B	9.5% M			8	$282	95.38000	10.19720
5C	9.5% M			5	$147	93.45670	10.50160
5D	9.5% M			140	$5,570	94.38800	10.35311
5E	9.5% M			64	$2,634	92.68491	10.62525
	TOTALS			224	$8,846		
6	9.5% C	156	$4,982				
6A	9.5% C			86	$2,916	94.38800	10.35311
6B	9.5% C			70	$2,066	92.87751	10.59501
	TOTALS			156	$4,982		
7	10.5% M	131	$5,596				
7A	10.5% M			2	$72	100.00000	10.50000
7B	10.5% M			26	$987	102.00250	10.19976
7C	10.5% M			103	$4,537	99.89366	10.51618
	TOTALS			131	$5,596		
8	10.5% C	81	$2,360	81	$2,360	100.02709	10.49588

9	11.5% M	147	$6,117				
9A	11.5% M			16	$549	107.28129	10.40397
9B	11.5% M			32	$1,101	106.25670	10.55165
9C	11.5% M			98	$4,436	105.59375	10.64829
	TOTALS			146	$6,086		
10	11.5% C	65	$1,907				
10A	11.5% C			3	$96	106.25670	10.55165
10B	11.5% C			62	$1,811	105.59375	10.64829
	TOTALS			65	$1,907		
11	12.0% M	152	$4,943				
11A	12.0% M			26	$810	107.91259	10.79020
11B	12.0% M			51	$1,668	107.56780	10.84021
11C	12.0% M			75	$2,465	107.06250	10.91393
	TOTALS			152	$4,943		
12	12.0% C	92	$2,447				
12A	12.0% C			5	$157	107.56780	10.84021
12B	12.0% C			87	$2,290	107.06250	10.91393
	TOTALS			92	$2,447		
13	12.5% M	282	$11,596				
13A	12.5% M			27	$988	108.88129	11.12396
13B	12.5% M			64	$2,385	108.81260	11.13397
13C	12.5% M			191	$8,223	108.53125	11.17506
	TOTALS			282	$11,596		
14	12.5% C	193	$5,713				
14A	12.5% C			1	$38	108.88129	11.12396
14B	12.5% C			4	$137	108.81260	11.13397
14C	12.5% C			188	$5,538	108.53125	11.17506
	TOTALS			193	$5,713		
	GRAND TOTALS	4,486	$178,765	4,483	$178,668		
			PREMIUM		$2,509		
			DISCOUNT		($13,860)		
			NET SALE		$167,318		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE
AUCTION OF VA VENDEE ACCOUNTS ON MAY 19, 1987
(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED		ACCEPTED		PRICE ACCEPTED	YIELD
		NO.	AMOUNT	NO.	AMOUNT		
1	8.5% M	1,188	$50,852				
1A	8.5% M			939	$36,413	85.48900	10.76579
1B	8.5% M			16	$462	93.00000	9.53166
1C	8.5% M			233	$13,977	83.05690	11.19697
	TOTALS			1,188	$50,852		
2	8.5% C	259	$9,107				
2A	8.5% C			146	$6,057	85.48900	10.76579
2B	8.5% C			113	$3,050	82.97956	11.21266
	TOTALS			259	$9,107		
3	9.0% M	2,190	$95,303				
3A	9.0% M			1,942	$80,165	88.87900	10.72651
3B	9.0% M			7	$201	95.00000	9.74126
3C	9.0% M			241	$14,937	86.70766	11.09934
	TOTALS			2,190	$95,303		
4	9.0% C	434	$15,030				
4A	9.0% C			27[illegible]	$10,616	88.87900	10.72651
4B	9.0% C			161	$4,414	86.73913	11.09384
	TOTALS			434	$15,030		
5	9.5% M	1,261	$55,180				
5A	9.5% M			1,098	$45,499	91.61900	10.80085
5B	9.5% M			15	$494	96.00000	9.79616
5C	9.5% M			146	$9,121	90.05071	11.06306
	TOTALS			1,259	$55,114		
6	9.5% C	471	$16,016				
6A	9.5% C			342	$12,494	91.61900	10.80085
6B	9.5% C			129	$3,522	90.04149	11.06463
	TOTALS			471	$16,016		
7	10.0% M	485	$21,671				
7A	10.0% M			438	$19,404	94.51900	10.84978
7B	10.0% M			47	$2,267	93.51426	11.01015
	TOTALS			485	$21,671		
8	10.0% C	154	$4,827				
8A	10.0% C			100	$3,261	94.51900	10.84978
8B	10.0% C			54	$1,566	93.56300	11.00519
	TOTALS			154	$4,827		
	GRAND TOTALS	6,442	$267,986	6,440	$267,920		
			PREMIUM		$0		
			DISCOUNT		($29,378)		
			NET SALE		$238,542		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE AUCTION OF VA VENDEE ACCOUNTS ON FEBRUARY 10, 1987

(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED		ACCEPTED		PRICE	YIELD
		NO.	AMOUNT	NO.	AMOUNT	ACCEPTED	
1	9.5% M	1,234	$59,505				
1A	9.5% M			320	$10,760	103.75300	8.9659
1B	9.5% M			897	$48,229	103.41734	9.01257
	TOTALS			1,217	$58,989		
2	9.5% C	502	$18,341				
2A	9.5% C			105	$2,792	103.75300	8.9659
2B	9.5% C			397	$15,549	103.73994	8.96771
	TOTALS			502	$18,341		
3	10.0% M	1,270	$56,846				
3A	10.0% M			11	$319	106.19800	9.11473
3B	10.0% M			1,259	$56,527	105.40656	9.2237
	TOTALS			1,270	$56,846		
4	10.0% C	480	$16,602				
4A	10.0% C			92	$2,278	106.19800	9.11473
4B	10.0% C			388	$14,324	105.52412	9.20744
	TOTALS			480	$16,602		
5	11.0% M	151	$7,154				
5A	11.0% M			33	$1,278	108.98200	9.68942
5B	11.0% M			117	$5,805	109.07978	9.676
	TOTALS			150	$7,083		
6	11.0% C	72	$2,099	72	$2,099	106.62857	10.01759
7	11.5% M	277	$11,310				
7A	11.5% M			85	$3,315	108.98200	10.16323
7B	11.5% M			180	$7,607	108.76202	10.19407
				265	$10,922		
8	11.5% C	196	$5,409	196	$5,409	107.56475	10.24922
	GRAND TOTALS	4,182	$177,266	4,152	$176,291		
		PREMIUM			$8,907		
		DISCOUNT			$0		
		NET SALE			$185,198		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE
AUCTION OF VA VENDEE ACCOUNTS ON NOVEMBER 4, 1986
(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED		ACCEPTED		PRICE	YIELD
		NO.	AMOUNT	NO.	AMOUNT	ACCEPTED	
1	8.50 % M	750	$14,695				
1A	8.50 % M			459	$7,949	93.27781	9.4887
1B	8.50 % M			233	$5,028	94.26000	9.33821
1C	8.50 % M			58	$1,718	98.01590	8.7821
	TOTALS			750	$14,695		
2	8.50 % C	240	$4,054				
2A	8.50 % C			240	$4,054	93.06250	9.52198
	TOTALS			240	$4,054		
3	9.00 % M	534	$11,044				
3A	9.00 % M			358	$6,750	95.04669	9.73408
3B	9.00 % M			150	$3,473	96.13000	9.56906
3C	9.00 % M			26	$821	98.81590	9.17083
	TOTALS			534	$11,044		
4	9.00 % C	114	$2,268				
4A	9.00 % C			114	$2,268	95.40625	9.67902
	TOTALS			114	$2,268		
5	9.50 % M	1,012	$47,150				
5A	9.50 % M			264	$16,867	99.09375	9.63316
5B	9.50 % M			590	$23,890	99.82990	9.52487
5C	9.50 % M			120	$5,165	100.39750	9.44212
5D	9.50 % M			36	$1,161	100.01000	9.49854
	TOTALS			1,010	$47,083		
6	9.50 % C	407	$14,600				
6A	9.50 % C			128	$3,800	99.109375	9.63085
6B	9.50 % C			279	$10,800	99.82990	9.52487
	TOTALS			407	$14,600		
7	10.00 % M	1,011	$45,386				
7A	10.00 % M			78	$4,385	102.43750	9.64292
7B	10.00 % M			656	$28,168	102.69990	9.60519
7C	10.00 % M			277	$12,833	102.97500	9.56578
	TOTALS			1,011	$45,386		
8	10.00 % C	369	$13,240				
8A	10.00 % C			153	$4,483	102.43750	9.64292
8B	10.00 % C			216	$8,757	102.69990	9.60519
	TOTALS			369	$13,240		
	GRAND TOTALS	4,437	$152,437	4,435	$152,370		
			PREMIUM		$1,616		
			DISCOUNT		($1,967)		
			NET SALE		$152,019		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE
AUCTION OF VA VENDEE ACCOUNTS ON SEPTEMBER 9, 1986
(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED NO.	OFFERED AMOUNT	ACCEPTED NO.	ACCEPTED AMOUNT	PRICE ACCEPTED	YIELD
1	9.5 % M	2,433	$100,535				
1A	9.5 % M			444	$27,967	98.51000	9.71984
1B	9.5 % M			1,963	$71,728	99.69990	9.54391
	TOTALS			2,407	$99,695		
2	9.5 % C	1,184	$43,151				
2A	9.5 % C			366	$10,641	98.51000	9.71984
2B	9.5 % C			815	$32,393	99.69990	9.54391
	TOTALS			1,181	$43,034		
3	10.0 % M	963	$43,730				
3A	10.0 % M			97	$5,600	101.45000	9.78613
3B	10.0 % M			865	$38,097	102.45990	9.63969
	TOTALS			962	$43,697		
4	10.0 % C	384	$11,527				
4A	10.0 % C			169	$4,747	101.43946	9.78767
4B	10.0 % C			215	$5,780	102.45990	9.63969
	TOTALS			384	$11,527		
	GRAND TOTALS	4,964	$198,943	4,934	$197,953		
			PREMIUM		$1,253		
			DISCOUNT		($888)	$365,000	
			NET SALE AMOUNT		$198,319		

LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE AUCTION OF VA VENDEE ACCOUNTS ON JULY 8, 1986 (AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED		ACCEPTED		PRICE ACCEPTED	YIELD
		NO.	AMOUNT	NO.	AMOUNT		
1	9.5% M	1,253	$47,828	43	$1,454	99.87500	9.51827
2	9.5% C	573	$19,117				
3	10.0% M	987	$43,451				
3A	10.0% M			314	$11,889	99.37500	10.09354
3B	10.0% M			275	$14,486	98.70000	10.19549
3C	10.0% M			395	$16,988	100.16010	9.97617
3D	10.0% M			1	$37	100.00000	10.00000
	TOTALS			985	$43,400		
4	10.0% C	560	$18,154				
4A	10.0% C			336	$11,827	99.37500	10.09354
4B	10.0% C			215	$6,088	98.70000	10.19549
	TOTALS			551	$17,915		
5	10.5% M	540	$23,907				
5A	10.5% M			270	$9,597	102.70600	10.09626
5B	10.5% M			133	$8,817	102.35000	10.14851
5C	10.5% M			130	$5,318	102.96010	10.05913
	TOTALS			533	$23,732		
6	10.5% C	275	$10,273				
6A	10.5% C			216	$8,199	102.70600	10.09626
6B	10.5% C			54	$1,989	102.35000	10.14851
	TOTALS			270	$10,188		
7	11.0% M	747	$32,199				
7A	11.0% M			635	$24,951	105.23600	10.21665
7B	11.0% M			107	$7,084	105.05000	10.24351
	TOTALS			742	$32,035		
8	11.0% C	356	$11,304				
8A	11.0% C			274	$8,857	105.23600	10.21665
8B	11.0% C			49	$1,553	105.05000	10.24351
	TOTALS			323	$10,410		
9	11.5% M	[illegible]	$21,408	552	$20,812	106.20000	10.55988
10	11.5% C	344	$10,212				
10A	11.5% C			68	$1,750	106.17400	10.56366
10B	11.5% C			180	$6,103	106.20000	10.55988
	TOTALS			248	$7,853		
GRAND TOTALS		6,212	$237,853	4,247	$167,799		
			PREMIUM		$4,903		
			DISCOUNT		($418)		
			NET SALE AMOUNT		$172,285		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE AUCTION OF VA VENDEE ACCOUNTS ON APRIL 8, 1986

(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED NO.	OFFERED AMOUNT	ACCEPTED NO.	ACCEPTED AMOUNT	PRICE ACCEPTED	YIELD
1	10.5 % M	344	$14,708				
1A	10.5 % M			115	$6,647	105.56900	9.68515
1B	10.5 % M			7	$353	106.80000	9.51318
TOTALS				122	$7,000		
2	10.5 % C	172	$6,273				
3	11 % M	720	$33,292				
3A	11 % M			344	$19,237	108.06900	9.81553
3B	11 % M			3	$106	108.80000	9.74200
TOTALS				347	$19,343		
4	11 % C	452	$15,624	234	$9,146	108.06900	9.81553
5	11.5 % M	1,160	$51,710				
5A	11.5 % M			774	$38,291	108.34400	10.25291
5B	11.5 % M			3	$66	108.20000	10.27326
TOTALS				777	$38,357		
6	11.5 % C	429	$15,423	128	$6,356	108.34400	10.25291
7	9.5 % M	361	$8,731				
8	9.5 % C	160	$3,789				
9	10 % M & C	80	$2,697				
10	12.5 % M	89	$3,853				
11	12.5 % C	72	$2,579				
GRAND TOTALS		4,039	$158,679	1,608	$80,202		
			PREMIUM		$6,424		
			DISCOUNT		$0		
			NET SALE AMOUNT		$86,626		

VA LOAN SALE RESULTS

SUMMARY OF VETERANS ADMINISTRATION COMPETITIVE
AUCTION OF VA VENDEE ACCOUNTS ON JAN 7, 1986
(AMOUNTS IN THOUSANDS OF DOLLARS)

LOT NO.	INTEREST RATE	OFFERED NO.	OFFERED AMOUNT	ACCEPTED NO.	ACCEPTED AMOUNT	PRICE ACCEPTED	YIELD
1	11.5 % M	1,906	$84,416				
1A	11.5 % M			1,659	$69,061	106.85900	10.46460
1B	11.5 % M			244	$15,286	106.11542	10.57226
1C	11.5 % M			3	$69	105.00900	10.73437
				1,906	$84,416		
2	11.5 % C	1,239	$41,526				
2A	11.5 % C			947	$33,986	106.85900	10.46460
2B	11.5 % C			86	$2,652	105.82474	10.61474
2C	11.5 % C			206	$4,889	105.03346	10.73071
				1,239	$41,526		
3	12.0 % M	68	$2,593	66	$2,507	108.04900	10.77051
4	12.0 % C	68	$1,926	45	$1,256	108.04900	10.77051
5	12.5 % M	197	$9,061	196	$9,037	109.10900	11.09082
6	12.5 % C	105	$3,303	81	$2,418	109.10900	11.09082
7	13.0 % M	115	$4,826	115	$4,826	109.60900	11.48901
8	13.0 % C	72	$2,451	56	$1,822	109.60900	11.48901
		3,770	$150,103	3,704	$147,808		

PREMIUM	$10,392
DISCOUNT	$0
NET SALE AMOUNT	$158,199

Section [illegible] of Public Law 100-169 prohibited the sale of vendee loans without recourse unless par value was obtained. That provision was enacted largely because the President's FY 1988 budget provided that all future sales of vendee loans would be without recourse, but the VA's one attempted sale on that basis--in May 1987--had been so unsuccessful that it had to be cancelled. During FYs 1988 and 1989, however, section 7001 of the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203), allows with- or without-recourse sales, depending on which type of sale the Administrator finds to be more cost-effective (based on various factors, including certain criteria set forth in section 7001).

In June 26, 1987, responses to written questions which I sent to the VA following the Committee's June 17 hearing on the home loan program, the VA stated that it "is exploring alternative marketing procedures for selling vendee loans without recourse, including the procurement of the services of a Financial Advisor".

QUESTION 38(a)(i)(A): Has the VA hired such a financial advisor? If so, who is that advisor?

ANSWER 38(a)(i)(A): Yes. A contract to perform these services was awarded on January 12, 1988, to Kidder, Peabody and Company, Inc.

QUESTION 38(a)(i)(B): How was the advisor selected?

ANSWER 38(a)(i)(B): Through a competitive solicitation which conformed with applicable Federal Acquisition Regulations.

QUESTION 38(a)(i)(C): What are the costs to the VA of such advisor?

ANSWER 38(a)(i)(C): VA has agreed to pay the Financial Advisor $550,000 for all services necessary to complete an initial nonrecourse sale, and an additional $150,000 for each subsequent sale transaction which is requested during the contract period.

QUESTION 38(a)(i)(D): What recommendations has such advisor made?

ANSWER 38(a)(i)(D): The Financial Advisor has not yet delivered any formal recommendations to VA under the contract. The duties of the Financial Advisor include (1) development of loan selection criteria; (2) evaluation of various strategies for structuring nonrecourse sales; (3) review of proposals submitted to VA from potential purchasers or underwriters for nonrecourse sales; and (4) managing proposed loan sales through completion.

QUESTION 38(a)(ii): What measures, other than hiring (or planning to hire) a financial advisor, is the VA taking or planning, to improve the results of future without-recourse sales?

ANSWER 38(a)(ii): On January 19, 1988, VA issued a formal request for proposal to purchase or underwrite the sale of vendee loans on a nonrecourse basis. The deadline for receipt of proposals from prospective offerors was February 18, 1988. The proposals are now being reviewed. The underwriters will be responsible for advertising and sale of securities which are collateralized by the loan assets VA is disposing of through non-recourse sale.

QUESTION 38(a)(iii): What are the costs of such measures?

ANSWER 38(a)(iii): The fee which would be payable to the underwriter is estimated to range between 0.75 percent and 1 percent of the sale proceeds.

QUESTION 38(a)(iv): Would it be cost-effective for the VA to purchase insurance coverage for loans to be sold without recourse?

ANSWER 38(a)(iv): Based on the bond rating given by Moody's and/or Standard and Poor's, the Financial Advisor will evaluate this possibility under the contract with VA and submit a report on its findings. No determination regarding the cost-effectiveness of purchasing insurance coverage has been made at this time.

QUESTION 38(a)(v): Would it be cost-effective for the VA to overcollateralize pools of loans to be sold without recourse?

ANSWER 38(a)(v): All Federal loan asset sales completed to date have involved some form of overcollateralization and/or pool insurance. However, VA will not be in a position to determine the cost-effectiveness of these options until the Financial Advisor has completed its evaluation of appropriate structuring alternatives.

QUESTION 38(b): What factors other than those specified in section 7001 will the VA consider in determining the comparative cost-effectiveness of with- and without-recourse sales?

ANSWER 38(b): Section 7001 specifies that, in comparing the cost-effectiveness of loan sales with and without recourse, VA will consider: differences in proceeds which would be obtained under both procedures; any estimated discount or premium; costs of conducting recourse sales; projected costs of repurchasing loans sold with recourse; costs of servicing repurchased loans and terminating those which are insoluble; costs of management, acquisition and disposition of the properties securing repurchased loans which are terminated; and, any loss or gain upon the resale of such properties. In addition, VA will consider the costs of selling loans without-recourse. Such expenses may include: the cost of Bond Ratings; SEC Registration filings; legal services; underwriter's fees; preparation of prospectuses; and, printing expenses.

QUESTION 38(c): What would be required to sell vendee loans through secondary market -- e.g. GNMA -- loan pools? Has the VA evaluated the desirability of such sales?

ANSWER 38(c): Loans must carry some form of Government insurance in order to be eligible for inclusion in GNMA pools. All vendee loans which VA previously sold under 38 CFR 36.4600 have been eligible for GNMA pools because of VA's commitment to repurchase defaulted loans. However, loans sold without recourse would not.

VA has found it to be more practical to sell loans to private lenders than to attempt to issue mortgage pools directly. The purchasing lender then assumes full responsibility for the servicing of the accounts and reporting to investors on loans which are pooled for resale through secondary mortuage markets.

QUESTION 39(a): How are loans selected for inclusion in VA vendee loan sales?

ANSWER 39(a): A computer program is run to select all loans meeting basic specified criteria such as: loan type, interest rate, State/county location, principal balance limits, term of loan limits, mortgage or contract instrument. Certain particular conditions will cause a loan to be excluded from the selection, such as loan in default, uninsured, accounting problem, document problem, balloon payment, modification agreement, payment other than monthly, payment by deduction from VA benefit or military allotment, not a first lien, loan in mortgage trust, maturity date past due, principal balance greater than loan amount.

QUESTION 39(b): If it is determined that a vendee loan selected for inclusion in a proposed sale does not qualify for the sale, is the regional office which made the loan allowed to substitute another loan in its place? If not, why not?

ANSWER 39(b): No. We have not required the regional offices to try to substitute for any loan which the office determines after review of the loan folder and documents cannot qualify for the sale.

In recent years we have included several interest rates in each sale, both new production and more seasoned loans, e.g., in Nov. 87 we offered 9 interest rates from 8-1/2 to 13-1/2 percent. Since we selected by computer all available loans in those interest rates about 4 weeks before the bid day, only a few very new loans would be available for the regional office to substitute. There would be no new loans in the older rates.

QUESTIONS 40(a) & (b): Please provide, separately for FY 87 and the four preceding fiscal years (a) the average net profit or loss when a foreclosed property is sold for cash or with non-VA financing; and (b) the average net profit or loss when a foreclosed property is sold by means of a vendee loan.

ANSWERS 40(a) & (b): The average loss per property sold is shown below, with the distinction made between cash sales and VA-financed sales when such data is available.

Average Loss By FY

Vendee Sales

1987	1986	1985*	1984*	1983*
$13,635	$11,565	$14,394	$10,611	$9,070

Cash Sales

1987	1986	1985*	1984*	1983*
$20,004	$18,144	*	*	*

In establishing vendee accounts VA continues to incur administrative costs for maintaining taxes and insurance escrows and other servicing expenses. Historically, 16 percent of these loans must be foreclosed and the properties reacquired. In FY 1988, the cost of reacquiring defaulted vendees is estimated at $148 million. Therefore, the average loss at the time of the property sales does not describe the total loss to the Government on vendee sales. In contrast on cash sales VA liability stops completely at the time the property is sold.

*Data on average loss/profit per property sold did not distinguish between cash sales or sales made with VA provided financing prior to FY 1986.

QUESTIONS 40(c) & (d): Please provide, separately for FY 87 and the four preceding fiscal years (c) the average length of time involved in processing the sale of a foreclosed property sold for cash or with non-VA financing; and (d) the average length of time involved in processing the sale of a foreclosed property sold by means of a vendee loan.

ANSWERS 40(c) & (d): The average lengths of time involved in processing cash sales and vendee sales are shown below.

Average Offer Processing to Closing Time by FY

Vendee Sales

1987	1986	1985*	1984*	1983
49.8 days	48.6 days	48.9 days	47.0 days	**

Cash Sales

1987	1986	1985*	1984*	1983
57.3 days	64.4 days	**	**	**

*Available data does not distinguish between cash sales and vendee sales.

**Data not available

QUESTIONS 40(e) & (f): Please provide, separately for FY 87 and the four preceding fiscal years (e) the kinds and amounts of costs incurred in selling a foreclosed property for cash; and (f) the kinds and amounts of cost incurred in selling a foreclosed property by means of a vendee loan.

ANSWERS 40(e) & (f):	The costs to VA associated with vendee financing include: review and underwriting of purchase offers; processing loan closings; establishment of vendee accounts [illegible] escrow) [illegible] [illegible] accounts and preparing current loans for sale. Public Law 98-369 required VA to sell at least 25 percent, but not more than 40 percent of its acquired property for cash during fiscal years 1984 and 1987. VA found it useful to offer a 10 percent discount off listing prices in order to encourage prospective purchasers to complete sales without VA-provided financing. In addition to the discount for cash, VA agreed to pay reasonable and customary closing costs associated with these sales, e.g., discount points, title policy and inspection reports. Public Law 100-198 increased the minimum cash sale percentage to 35 percent for fiscal years 1988 through 1990. In order to meet the increased minimum percentage, VA regional offices have been authorized to offer a maximum of 20 percent discount off term list prices to promote cash sales.
QUESTIONS 41(a) - (f):	Please provide separately for FYs 1986 and 1987 showing: (a) the date, location, and number of auctions held of VA-acquired foreclosed properties; (b) the number of properties offered for sale at each auction; (c) the number of properties sold at each auction; (d) the average net profit or loss on such properties at each auction; (e) the average cost per property at such auctions; and (f) the average length of time such auctioned properties had been held by the VA before being offered for sale at auction.
ANSWERS 41(a) - (f):	The following table provides the data requested for the questions shown above.

AUCTION LOCATION	AUCTION DATE	NUMBER OFFERED	NUMBER SOLD	AVERAGE NET LOSS*	AVERAGE SELLING COST**	AVERAGE MONTHS IN CUSTODY
			FY 86			
Phoenix	10/85	126	126	$12,274	$3,752	15
Houston	2/86	249	249	26,461	1,786	22
Phoenix	3/86	140	140	10,786	3,590	10
Muskogee	4/86	167	167	15,616	1,396	14
Indianapl.	5/86	114	97	8,863	1,814	14
New Orleans	9/86	117	110	20,481	2,244	18
Totals		913	889			
			FY 87			
Houston	10/86	350	323	$21,214	$1,447	14
Muskogee	4/87	297	297	17,995	1,295	10
CedRapids	4/87	76	74	19,607	1,066	21
Gary	5/87	112	111	11,705	992	19
Denver	5/87	185	173	22,700	2,619	18
San Antonio	6/87	201	194	15,947	2,237	13
Beaumont	6/87	110	108	14,873	1,111	22
Houston	6/87	250	228	19,150	1,111	19
Houston	8/87	248	202	20,522	1,543	19
CorChristi	8/87	76	68	12,609	2,041	7
Salt Lake	9/87	101	94	10,768	2,713	12
Totals		2006	1872			

*The net loss per property is determined by adding the amount VA paid for the property, the holding costs (taxes, special assessments and other operating expenses), sales expenses and subtracting the sales price from the total.

**Includes sales commission and advertising.

QUESTION 41(g): Please provide separately for FYs 1986 and 1987 showing the VA's criteria for determining when its foreclosed properties will be offered for sale by means of an auction.

ANSWER 41(g): In general, only properties which have not been sold, using VA's customary sales methods, over a reasonable period of time are selected for auction. Therefore, properties that have been properly exposed to the market for the longest periods of time are selected first. However, properties similar to those selected under this criterion and located in the same subdivision or development may also be included, even if they are not in the oldest category. In addition, properties which have been substantially vandalized and/or left in very poor condition by the previous owners may be included. Foreclosed properties that have not been listed for sale for at least 90 days prior to selection are not eligible for auction.

QUESTION 41(h): Please provide separately for FYs 1986 and 1987 showing the percentage of foreclosed properties sold at auction.

ANSWER 41(h): Auction sales as a percentage of our total property sales in FY 86 were 3.2 percent and 5.6 percent in FY 87.

In section 2512(a)(2) of the Deficit Reduction Act of 1984 (DEFRA) (Public Law 98-369) Congress enacted guidelines--the so-called "no-bid formula" (Section 1816(C) of title 38)--for determining whether, upon foreclosure of the property securing a VA-guaranteed loan, the VA acquires the property or pays the lender under the guaranty. The DEFRA guidelines do not, however, specifically apply to the VA's calculation of the veteran's debt to the VA.

In its response to written questions which I submitted following the committee's February 18, 1987, hearing, the VA suggested that it uses the no-bid formula to determine the amount of the veteran's debt to the VA.

QUESTION 42(a): Does the VA believe that it is required to apply the no-bid formula in determining the amount of a veteran's debt?

ANSWER 42(a): Yes. The VA normally pays a claim under loan guaranty for the difference between the loan indebtedness, as defined in title 38, U.S.C. 1816(c)(1)(D), and the net value of the property, as defined in title 38, U.S.C. 1816(c)(1)(C). A debt corresponding to the amount of claim paid is established against the veteran. Since the no bid formula must be used in determining the net value of the property, we believe it must also be used in determining the veteran's debt.

QUESTION 42(b)(i): Is it equitable to use the no-bid formula to calculate the VA's debt?

ANSWER 42(b)(i): Yes, if you are referring to the debt which VA establishes against the veteran. The no-bid formula provides the most complete calculation of the veteran's debt to the Government because it represents the true cost of the default to the Government.

QUESTION 42(b)(ii): If not, what differences should there be in determining the amount owed to the lender and the amount of the VA's debt?

ANSWER 42(b)(ii): We are not proposing an alternative to the existing law with respect to determining the amount owed the lender or the amount of the veteran's debt to VA.

QUESTION 42(c): The VA's average loss per property has decreased as a result of the statutory formula's increased number of "no-bids", but, according to that VA response, the average debt per veteran has increased. Does the VA believe that this is appropriate?

ANSWER 42(c): When VA determines whether to pay the maximum guaranty or to acquire the property (under the no-bid formula), the estimated costs of acquiring and selling the property are deducted from the current reasonable value of the property. The reduced value (the "net value") is then compared to the total debt less the guaranty in determining whether VA will offer to purchase the property from the lender. Using the (lesser) net value results in fewer property acquisitions by VA. However, it also results in larger debts to veterans since the indebtedness is credited with a reduced property value. Therefore, we believe that reduced loss per property is consistent with an increased debt per veteran under the present no-bid procedure. This is appropriate, as indicated in our response to subparagraph (b)(i) of this question.

QUESTION 42(d): In assessing property management and disposal costs for purposes of calculating a veteran's debt to the VA, a nationally-uniform percentage of the value of the property is used. Why aren't local differences in such costs taken into account?

ANSWER 42(d): Local differences in such costs are not taken into account because the veteran's debt would then be affected by variations in local property management costs. In addition, some states have such a small volume of foreclosures that it would not be possible to obtain statistically valid local figures.

Section 1816(g)(3) of title 38 (as amended by section 13 of Public Law 100-198) requires that, in the establishment of minimum residual standards for purposes of determining a veteran's creditworthiness for VA-guaranteed loans, appropriate consideration be given to state statistics -- not just regional data -- where reliable state statistics are available.

QUESTION 43(a): What is the VA doing to determine if such statistics are available?

ANSWER 43(a): When the decision was made in 1986 to study ways to set the residual income guidelines, each of our field stations were asked to look into statistical sources that might be available for their areas. We suggested reports published by State agencies, chambers of commerce, etc. We also contacted the Department of Labor's, Bureau of Labor Statistics (BLS) as to their knowledge of any localized cost-of-living studies. In addition to our own field stations and BLS, we have informed lenders and other interested program participants that we are always willing to consider and review any existing data that they submit or any new data that is formulated.

QUESTION 43(b): What has the VA determined?

ANSWER 43(b): The responses from the field stations indicated that there were no local sources available that fit our needs. BLS has also stated that to their knowledge localized data is not statistically valid and cannot be supported and is often not published on a regular basis using standardized data sources. Since we started using the BLS regional data few other statistical reports have been submitted for our review. These reports have been published by local chambers of commerce and have not been found to be either statistically valid or updated on a regular basis. This is based on our own review and that of BLS personnel.

Section 9(a) of Public Law 100-198 authorizes the VA, during FYs 1989 and 1990, to sell VA-acquired foreclosed properties to certain entities for use as shelters primarily for homeless veterans and their families, when the Administrator determines that the sale would not adversely affect the solvency of the LGRF.

QUESTION 44(a): What efforts have and will the VA be taking to inform such entities when properties are available for sale as shelters?

ANSWER 44(a): Since Public Law 100-198 was signed by the President on December 21, 1987, VA Central Office staff has been developing instructions and procedures to be used by field stations in implementing the provisions of section 9(a), the Homeless Program. It is expected that these instructions will be available to the field offices not later than February 29.

To implement the provisions of section 9(a), VA will offer discounts up to a maximum of [illegible] percent off listed prices to organizations/entities eligible to purchase properties under this program. VA field stations will be instructed to identify eligible properties and to prepare listings of these properties for subsequent distribution to prospective purchasers under the program. Field stations will also be requested to make contact with any State and local agencies or nonprofit organizations working on behalf of the homeless in an attempt to learn the geographic areas in which the agencies may be seeking to acquire properties to be used as shelters and to determine the price ranges of properties in which the agencies might be interested. When a prospective purchaser expresses an interest in purchasing an eligible property, the property will be excluded or removed from the public sales listing and the prospective purchaser will be allowed [illegible] days in which to provide an offer for the property.

QUESTION 44(b): How many foreclosed homes qualify for sale as shelters under the provisions of section 9(a), and where are such properties located?

ANSWER 44(b): Since instructions implementing the provisions of section 9(a) have not yet been provided to VA field stations, the numbers and locations of qualifying properties are not yet known.

QUESTION 44(c): How many properties have been sold pursuant to section 9(a)?

ANSWER 44(c): No properties have yet been sold pursuant to section 9(a).

QUESTION 44(d): Please identify all entities which have contacted the VA expressing an interest in purchasing any such properties for use as such shelters.

ANSWER 44(d): Although our field stations may have received some inquiries regarding the newly authorized Homeless Program, we have not been informed of any such contacts.

QUESTION 45(a): The VA may hold a foreclosed property for several months--and in some areas, 6 to 12 months or longer--before selling it. In declining markets, the price at which a property was appraised at the time of foreclosure may substantially exceed the fair market value of the property when it is listed for sale months later. How does the VA factor a depreciating real estate market into the net value of the property for purposes of calculating the VA's liability under the guaranty and the no-bid formula.

ANSWER 45(a): Such market factors are normally taken into account in the preparation of the liquidation appraisal by a local fee appraiser who is acquainted with local market conditions.

QUESTION 45(b): How does the VA factor a depreciating real estate market into the net value of the property for purposes of calculating the veteran's debt to the VA.

ANSWER 45(b): See response to previous question.

QUESTION 45(c): How does the VA factor a depreciating real estate market into the net value of the property for purposes of calculating the price at which the VA offers the property for sale?

ANSWER 45(c): See response to question 45(a).

QUESTION 46(a) & (b): The Gold Star Wives have recommended that funding appropriated for the cost-of-living-adjustment (COLA) be distributed in equal amounts to all DIC recipients. Under this proposal based on the FY 1988 COLA of 4.2 percent, what would be the percentage increase for each pay grade category? Under this proposal how many beneficiaries would be affected in each such category?

ANSWER 46(a) & (b): The Agency's understanding of the proposal is that the cost of the COLA increase attributable to DIC spouses should be redistributed equally among all spouses, rather than be distributed based on pay grade.

The estimated annual DIC cost of the 4.2 percent COLA, effective December 1, 1987, is $85.4 million. The cost for spouses is estimated at nearly $77.8 million. The balance, $7.6 million, is the estimated cost for children.

Attached is a chart showing the impact the proposal would have on the spouses by pay grade category.

Impact
of
Gold Star Wives Proposal

Pay Grade	Spouses	Rates Effective 12/1/86	Rates Effective 12/1/87	Proposed Rates 1/	Revised Percent
E-1	37,839	498	518	522	4.8%
E-2	30,133	513	534	537	4.7%
E-3	26,981	526	548	550	4.6%
A/C	245	526	548	550	4.6%
E-4	26,565	560	583	584	4.3%
E-5	[illegible]	574	[illegible]	[illegible]	[illegible]
E-6	28,146	587	611	611	4.1%
E-7	27,981	616	641	640	3.9%
E-8	6,010	650	677	674	3.7%
E-9	3,131	679	707	703	3.5%
S M	5	733	763	757	3.3%
W-1	1,113	630	656	654	3.8%
W-2	1,827	655	682	679	3.7%
W-3	1,074	674	702	698	3.6%
W-4	1,213	714	743	738	3.4%
O-1	3,886	630	656	654	3.8%
O-2	6,840	650	677	674	3.7%
O-3	10,488	696	725	720	3.4%
O-4	9,029	736	767	760	3.3%
O-5	8,558	811	845	835	3.0%
O-6	6,067	914	952	938	2.6%
O-7	363	988	1,029	1,012	2.4%
O-8	369	1,083	1,128	1,107	2.2%
O-9	89	1,162	1,211	1,186	2.1%
O-10	32	1,274	1,328	1,298	1.9%
JCE	12	1,365	1,422	1,389	1.8%

1/ The annual cost of the 12/1/87 rates for spouses is nearly $77.8 million.
The number of spouses upon which to distribute cost is 266,413.
The proposal would increase each pay grade category by $24, rounded to the nearest dollar.

Question:

47. What were the VA's total costs arising from the NARS v. Turnage litigation? Please provide separate figures for FTEE costs and non-FTEE expenditures.

(a) Where has the funding to pay for these expenses been taken from?

Answer:

The estimated total costs associated with the NARS v. Turnage litigation incurred thus far is:

Department/Staff Office	FTEE Costs	Non-FTEE Costs
Department of Veterans Benefits	Comprehensive data unavailable at this time.	Comprehensive data unavailable at this time.
Department of Medicine and Surgery	2.5 FTEE ($90,000)	$2,587,873[1] 17,500[2] 2,580[3] 2,000[4]
Inspector General	0.1 FTEE ($4,567)	$ 2,751[1] 36[2] 2,635[4]
General Counsel	3.9 FTEE ($206.674)	$ 36,926[4]
Office of Information Systems and Telecommunication	8 FTEE ($137,841)	$ 899,511[4] 88,377[1]

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[1] record storage cost
[2] photocopy costs
[3] postage & mailing costs
[4] administrative costs

No special funding has been made available to support these activities. Funding, therefore, has been taken from that provided for general operations.

The Department of Veterans Benefits is currently obtaining cost data from the its field stations and will provide a detailed response as soon as possible. On a preliminary level, the following chart reflects 1987 obligations:

Reimbursement to Department of Justice for Litigation System Support	$1,235,402
Fine	15,000
Settlement Cost	100,000
Overtime	1,940
Other Services	20,000
Storage	148,291
Travel	25,000
Total	$1,545,633

Note: The total figure does not include payroll costs except for overtime.

Towards the end of FY 1987, the VA had to stop making retroactive compensation and pension payments owed to veterans because it ran out of funding.

QUESTION 48(a):	Why didn't the VA request appropriations -- in its original budget request or in supplemental appropriations -- sufficient to provide for this entitlement spending?
ANSWER 48(a):	During the first half of calendar 1987 average costs per compensation recipient exceeded expectations making it necessary to request a supplemental appropriation in early August 1987 for $53.4 million beyond the funding already appropriated by the Congress.
QUESTION 48(b):	When did the VA first discover the shortfall?
ANSWER 48(b):	The VA first became aware of the possibility of a shortfall in funding the C&P appropriation in early June when the May "flash" data showed cumulative obligations to be $8.1 million above the plan figure. The June "flash" data (available in early July) showed a deviation of another $3.2 million for the month and $12.1 million on a cumulative basis. The June "flash" figures included an actual for the month of May which showed May obligations to be $8.9 million above plan, nearly a million dollars greater than the May "flash" figure indicated.
QUESTION 48(c):	What steps has the VA taken to prevent this kind of shortfall from happening again?
ANSWER 48(c):	The VA is always striving to improve the estimating techniques used in developing the budget estimates. In addition, the estimates are reviewed by several levels within the Agency as well as OMB and finally Congress itself.

Because of the magnitude of the C&P program, with over 3.7 million compensation and pension recipients and obligations in access of $1.2 billion per month, it is difficult to be absolutely precise. For example, if the estimated average monthly cost of those 3.7 million cases is off by $1 dollar per month, this translates into a $3.7 million deviation for the month. If that deviation were to continue for the year it would mean an annual deviation of $44.4 million.

In 1987, the Compensation and Pensions appropriation experienced the following activity:

o Terminated 200,000 cases from the Pension rolls
o Accepted 90,000 new cases under the Improved Law Program
o Processed 19,000 elections for the Improved Law benefits
o Terminated 98,000 cases from the Compensation rolls
o Accepted 81,000 new cases to the Compensation Program
o Awarded 126,442 burial allowances
o Processed $11,510 plot allowance awards and,
o Provided 319,292 headstone markers and allowances

The second supplemental request represented an increase of less than .4 percent of what was appropriated in 1987, $14.9 billion. It is exceedingly difficult to submit budget requests, nine months before the start of the fiscal year, that have such little margin for error.

QUESTION 49(a)&(b): How many AIDS - and ARC-related claims for benefits did the VA receive in FY 1987, and how many did it pay? Please provide this data broken down by type of benefit (compensation, pension, DIC, dependents' and survivors' educational assistance, funeral expenses, plot allowances, and vocational rehabilitation services and assistance).

Please provide FYs 1988 and 1989 estimates for the data requested in part (a) of this question.

ANSWER 49(a)&(b): As of November 1987, 635 AIDS and ARC-related claims have been files, broken down as follows:

Compensation, allowed	-	491
Compensation, denied	-	71
Pension, allowed	-	63
Pension, denied	-	8

Statistics relating to AIDS and ARC-related claims are not maintained in sufficient detail to furnish any more data and have not been maintained for a period of time sufficient to accurately forecast estimates for FYs 1988 and 1989.

The postservice manifestation of any underlying disease will be service connected when the evidence of record establishes that an infection was incurred in service.

QUESTION 50: In the course of the March 17, 1987, joint hearing of the Senate and House Veterans' Affairs Committees, serious allegations were made that the VA fails to protect adequately veterans' due process rights in the course of adjudicating veterans' claims. What, if any, steps has the VA taken over the course of the past 2 years to improve veterans due process procedures and claims processing generally?

ANSWER 50: Due process is an area to which we have given a great deal of attention over the last few years. We will continue to provide this constitutional right to all our claimants. In the last two years alone the Department of Veterans Benefits (DVB) has sent the regional offices instructions or information pertaining to the issue of due process on at least seven occasions. The most significant release was DVB Circular 20-87-25 (effective Dec. 1, 1987), which established new due process procedures to be followed in cases involving compensation, pension, and DIC payments. This circular requires that (except in limited, court-specified situations) whenever a regional office proposes to reduce, suspend or terminate a running award, the beneficiary must be sent advance written notice of the proposed action and payments must be continued for at least 60 days after the notification to allow time for the beneficiary to submit evidence showing that the proposed action should not be taken. We are in the process of preparing a change to title 18, Code of Federal Regulations, which will incorporate these and other procedural safeguards into our regulations.

QUESTION 51: What would be the impact on the Department of Veterans' Benefits and on the timeliness and quality of benefits and services to veterans in FY 1989 if DVB general operating expenses funding were frozen at FY 1988 levels?

ANSWER 51: It is difficult to estimate the impact on the Department of Veterans Benefits of maintaining the 1988 funding level in 1989. Several initiatives currently under way are expected to increase productivity and improve service provided to veterans. This should result in decreased employment and funding requirements in 1989. These initiatives include the Loan Production System, the Hearing Officer proposal, and the DVB-DM&S Data Exchange project, plus others. The Department expects to be able to meet its responsibilities with the funds provided in the 1989 President's Budget.

Question: 52. The FY 1988 Continuing Resolution (Public Law 100-203) includes general reductions of $36,034,000 in the funding for General Operating Expenses and $121,742,000 in the funding for Medical Care on the basis of average salary cost lower than those assumed in the Administration' FY 1988 budget request. Please provide separate analyses of each of these lower average salary costs, including --

52A. The factors producing the lower costs (and the amount attributable to each factor); and

Answer: The factor that lowered the estimated 1988 average payroll cost for the Medical care appropriation was the less than anticipated switch rate of Federal employees from the Civil Service Retirement System (CSRS) to the new Federal Employee Retirement System (FERS). This alone accounts for the $121,742,000 reduction in average salary costs included in the FY 1988 Continuing Resolution (Public Law 100-203).

For the General Operating Expenses (GOE) appropriation, the report recognized that the Department of Veterans Benefits (DVB) modernization initiative would absorb some of the reduction of $36,034,000. FERS reductions as well as a slightly lower average regular pay accounts for $23,096,000 of the reduction. The less ambitious and more realistic schedule for implementing the revised modernization initiative made up the remaining $13 million. Estimated obligations associated with the revised modernization schedule were less than the original plan; savings were utilized to accommodate a staffing level of 12,800 as shown in the middle column of the FY 1989 budget request.

Question: 52B. The reasons they were not anticipated at the time the budget request was submitted or later when supplementals were requested.

Answer: During the preparation of the 1988 President's Budget, OMB directed the Agencies to assume that 40 percent of CSRS employees would convert to FERS between July 1 to December 31, 1987. The Agency's actual switch rate was considerably less, 3.2 percent. Because the difference in the Agency's contribution to retirement cost as a percentage of salary for a FERS employee versus a CSR employee is so large (19.7 percent to 7 percent, respectively) the change in the assumed switch rate had an enormous impact on the average payroll cost. As noted for GOE, in addition to this benefits cost reduction, the average regular pay dropped by less than 0.75 percent, totally $4 million. There is no specific trend that can be cited for this change as it is within the normal range of variance in average pay projections.

QUESTION 53:	What measures does the agency take to ensure that information regarding successful program implementation innovations -- such as the development of a folderless file system or bulk sales of VA-acquired foreclosed properties -- which have been introduced at one regional office is disseminated to other regional offices.
ANSWER 53:	Dissemination procedures vary depending on the magnitude of the innovation, and the locations with similar situations. Major program specific innovations or procedural changes, which are evaluated as being successful, cost effective or otherwise likely to improve operations nationally are incorporated into our operations by issuing circulars and or manuals or other regulatory changes. These changes are also presented during National Hotline Calls and further discussed with division and/or station management as questions arise. Minor modifications found to improve operations, which are not contrary to existing operating instructions are disseminated through weekly Field Operations or Program Hotline calls, as suggestions during station visits, as part of Field Operations contact with individual stations and during DVB's annual Directors and Division Chief conferences. Identification of innovations and enhancements is made through a variety of existing procedures: the VA's Suggestion Program, which encourages and rewards the submission of ideas which will reduce costs or improve quality in VA operations; specific requests from stations for permission to deviate from existing procedures in order to operate more effectively; national test and pilot programs established to field test new methods and procedures which have been reviewed and appear to [illegible] existing [illegible] or otherwise improve overall operations; the results of trial implementations of local office initiatives reported to Central Office; and unique or innovative procedures or management initiatives identified during field station visits. VA manager performance standards also require annual self evaluation and documentation of innovations which have improved operating performance.
QUESTION 54(a):	How many FTEE would be required for all VA regional offices for FY 1989 to be able to meet the VA-established standards for timeliness and quality?
ANSWER 54(a):	The Department of Veterans Benefits expects to meet its established standards for timeliness and quality using the 12,308 FTEE requested in the President's Budget.
QUESTION 54(b):	What level of funding would this require for FY 1989?
ANSWER 54(b):	The funds required to support the Department's 1989 operating budget are $503,259,000.

Question: 55(a). How many investigator-initiated grant applications did the VA receive during each of FYs 1986 and 1987, and how many are estimated to be submitted in FY 1988? Please provide this information broken down separately for medical, rehabilitation and health services research and also give the total dollar amounts in each case.

55(b). How many were funded, and are expected to be funded in each category for each of those years and in what total amounts?

Answer: The attached Table provides the number of Merit Review investigator-initiated research proposals received by each research service in Fiscal Years 1986-1988. The number and percentage of submitted programs approved and funded, and the funds provided in support of the successful projects are included in the Table.

Question: 55(c). How did the percentage of grant applications funded by the VA compare to that of the National Institutes of Health for each of FYs 1986 and 1987?

Answer: The percentage of submitted grants approved and funded by the NIH has been relatively constant in recent years. In both 1984 and 1985, the last years for which exact figures are available, the percentage of approved grants funded was 37.3%.

ATTACHMENT

	FY 1986	FY 1987	FY 1988 (Est.)
A) Number of Merit Review Investigator-Initiated Submissions:			
Medical Research Service	1251	1301	1433
Health Services R & D	61	71	92
Rehabilitation R & D	78	108	90
B) Number of Merit Review Proposals Approved:			
Medical Research Service	998	1073	1175
Health Services R & D	20	71	30
Rehabilitation R & D	34	56	75
C) Number of Merit Review Proposals approved and funded:			
Medical Research Service	629 (63%)[1]	649 (60%)[1]	573 (49%)[1]
Health Services R & D	20 (100%)	71 (100%)	21 (70%)
Rehabilitation R & D	34 (100%)	56 (100%)	70 (93%)
D) Annual Cost[2] of Funding Proposals on Line C:			
Medical Research Service	$36,462,000	$37,967,000	$34,380,000
Health Services R & D	$ 1,340,000	$ 1,260,000	$ 1,533,000
Rehabilitation R & D	$ 5,270,000	$ 9,240,000	$10,500,000

1. Percent of approved proposals

2. The cost is provided as the annual cost for support of proposals in each category. On the average projects run for 3.5 years.

Question: 56. The FY 1988 Continuing Resolution included a net reduction of $5.037 million from the FY 1988 budget request for research funding. The conference report stated that the reduction should come from research areas other than rehabilitative research. How is that reduction being applied? (Please include in the response the dollar amounts and percentages of the reduction being made in medical and health services research.)

Answer: The basis for the FY 1988 Medical and Prosthetics Research and Development budget was the President's requested level of $197,936,000. The Conference Report included a reduction in the total amount of research funding of $5,037,000 (2.5%), but stated that none of the reduction should come from the Rehabilitation Research budget. The Conference Report also increased the Rehabilitation Research budget level by an additional $3,000,000 (17.1%). The Medical Research and Health Services Research budgets were reduced by $7,646,000 and $391,000 respectively, which represents a 4.5% reduction from the requested level. The following table shows the results of these actions.

	FY 1988 REQUESTED LEVEL	CONFERENCE REPORT FY 1988 BUDGET	NET CHANGE FROM REQUEST LEVEL	PERCENT CHANGE FROM REQUEST
Medical Research	$171,851,000	$164,205,000	-7,646,000	-4.5%
Rehabilitation Research	$ 17,534,000	$ 20,534,000	+3,000,000	+17.1%
Health Services Research	$ 8,551,000	$ 8,160,000	-391,000	-4.5%
TOTAL	$197,936,000	$192,899,000	$-5,037,000	

Question: 57(a). How many grant applications were identified as being "high priority" — research programs identified in the FY 1988 budget as highly relevant to veterans -- in FYs 1986 and 1987, and how many are estimated to be in FY 1988?

Answer: The High Priority Programs, now redefined as Special Research Initiatives, are an extremely important component of the Medical Research Service program. These Special Research Initiatives provide supoort for specially solicited research projects in areas relevant to veterans' medical care problems where an opportunity exists for a significant advancement in the field. Studies supported in this program are time limited, usually lasting three or four years. Continued support for such studies is encouraged through the VA's Merit Review Program. The table below shows the number of VA research projects identified in the Special Initiative category in years 1986-88. It should be emphasized that many productive projects that began in this category continue to be supported under Merit Review.

	FY 1986	FY 1987	FY 1988(Est.)
Number of Funded Programs	72	100	70

Question: 57(b). Of those so identified, how many received full funding?

Answer: The policy to fully fund all projects within Special Research Initiatives (SRI) was discontinued in FY 1986 to accommodate the Balanced Budget and Emergency Deficit Control Act (P.L.99-177). As a result, since FY 1986 all programs in SRI are treated in the same manner as are the Merit Review Programs - i.e., each program receives a percentage of the approved (not the requested) budget. The percentage of the approved budget provided is a function of the scientific priority score assigned to the project. The projects with the best priority scores receive 100 percent of the approved budget; the projects with lower scientific priorities receive less than full funding. Projects can receive as little as 76 percent of their approved budgets.

It should be emphasized that the purpose of this sliding scale for funding is to allow more VA physicians and researchers to engage in research than would be permitted if full funding were provided.

The table below shows the number of SRI projects that received full funding based on their excellent scientific priority.

FY 1986	FY 1987	FY 1988 (Est.)
28	13	7

Question: 57(c). What was the overall percentage of reduction for "high priority" research proposals compared to all other research applications?

Answer: The average reduction for both SRI projects and all Merit Review projects was 12% less than the approved (not requested) level.

Question: 57(d). What accounted for the 42-percent decrease (from $5.5 million to $3.1 million) in the actual funding level for "special research initiatives" as compared to the budget estimate for those activities for FY 1988?

Answer: The 42% reduction reflects a change in program counting, not a change in the number of research projects in areas of special relevance to veteran patients. The reduction in the number of programs (and dollars) in 1988 reflects the fact that many projects that began in Special Research Initiatives obtained continued support through Merit Review. This administrative change in the method of tracking does not imply any reduction in the importance which Medical Research Service places on research projects of special relevance to VA patients.

Question: 58(a). Does the VA provide, through the medical or rehabilitation research programs, funding for improving or building research facilities or for major equipment purchases in order to keep pace with new research developments?

Answer: The VA does support improving and building research facilities and the purchase of major equipment related to construction projects. Funds for support of these activities come from the construction or medical care appropriation. Funding for equipment directly related to research endeavors is provided from the Medical and Prosthetics Research appropriation.

Question: 58(b). Do any VAMCs have "P3" containment facilities in order to conduct molecular biology and genetic engineering research with the human immunodeficiency virus?

Answer: The VA has one "P3" containment facility (at the Baltimore VAMC) under design and approved for funding for AIDS related research. In connection with the recently approved AIDS research center at the San Diego VA Medical Center, there is a proposal for the construction of an additional containment facility.

Question: 58(c). If not, would such a facility substantially enhance the VA's ability to conduct research on AIDS?

Answer: Not applicable.

Question: 58(d). Is any consideration being given to establishing such a facility at a VAMC and, if so, where?

Answer: As noted above, the request from the San Diego VAMC is under review.

Question: 59(a). How much funding and how many FTEEs has the VA included in its budget for drug testing for FY 1989?

Answer: Estimated cost of the drug testing in FY 1989 would be $80,000 for collection supplies and specimen mailing, and $400,000 for testing by Navy laboratory. No FTEEs have been specifically budgeted.

Question: 59(b). Will FTEEs be provided to stations to conduct and monitor the drug testing program?

Answer: No. The VA will plan to test 20,000 specimens agency-wide in FY 1989, therefore, the staff time devoted to specimen collection at the individual medical center would be about 50 hours total over the entire year. Laboratory analyses of the specimens will not be performed by personnel at the individual stations. The VA plans to have the laboratory analyses performed by a Navy laboratory under an interagency agreement.

Question: 59(c). Will any additional funding and FTEEs be provided to employee assistance programs?

Answer: No. Employee assistance programs are already functional within VA and would be available to provide the additional service resulting from the Drug Testing Program with no expected expansion.

Question: 59(d). Will individual stations be required to absorb the costs and FTEE associated with drug testing within their medical budgets?

Answer: Yes. It is expected that the costs, including salaries for staff time, at the average individual station will be less than $10,000 per year.

Question: 60. The VA has recently approved applications for four AIDS Clinical Units and three AIDS Research Centers.

60(a). Has funding been provided to the approved Units and Centers and, if so, in what amount of dollars and FTEE?

Answer: The New York AIDS Clinical Unit, a 22 bed unit which includes a day hospital, was opened officially on January 21, 1988. Construction costs were $500,000 and ongoing costs include $1.2 million for staff (32 FTEE) and $600,000 for supplies. Funding was provided through Region 1 based on a proposal first submitted in 1986.

Proposals for three additional AIDS Clinical Units in Miami, San Francisco and West Los Angeles VA Medical Centers were recently approved and funding packages are currently being developed for FY 1988.

The West Los Angeles VA Medical Center has already opened a 15 bed inpatient clinical unit on January 11, 1988. Resources to begin this effort were from the VA medical center recurring operating budget as follows: 16.5 FTEE costing $565,083 and $195,000 per year in supplies. There also is an operational outpatient clinic operating five days a week.

The VA will fund three AIDS Research Centers April 1, 1988 at the following VA medical centers: Baltimore, Durham and San Diego. The first year costs for the three centers will be $1,340,386, exclusive of renovation costs. These three centers will be funded for five years and will require a total of twelve FTEE.

Question: 60(b). Are more Clinical Units or Research Centers planned?

Answer: The VA Medical Research Service is considering the support of three additional Centers that were approved through the peer review process in January, 1988.

There are no specific plans for additional clinical units at this time.

Question: 61. To how many veteran patients with AIDS or ARC did the VA furnish health care services in FY 1987, and to how many does the VA expect to furnish such services in each of FYs 1988, 1989, and 1990? Please provide the data broken down as to hospital, nursing home, and domiciliary care and outpatient care.

Answer: Staff at 128 meeical centers reported 1,927 new cases of AIDS being cared for in their facilities in 1987. In addition to these patients an unknown number of survivors from previous years continued to receive care. When the Patient Treatment File (PTF) data becomes available in March, it will be possible to report the number of patients with AIDS and ARC discharged from medical centers broken down as to hospital, nursing home, and domiciliary for FY 1987. No such data is available on Outpatient care. The following AIDS caseload projections are being made for 1988-1990:

YEAR	ESTIMATED CASELOAD
1988	2400
1989	2800
1990	3200

Projection of the distribution of patients according to level of care will be possible after the FY 87 PTF data is analyzed. It is probable that most veterans with AIDS and/or ARC will use both inpatient and outpatient services. A smaller, as yet undetermined, number will also use nursing home and/or domiciliary care.

Question: 62. Last year, the VA testified that adjustments were being made in the RAM model to account for AIDS.

62(a). What adjustments have been made and to what extent have been successful in providing adequate funding for the costs of AIDS care?

Answer: Efforts at the present time are directed toward establishing what it costs to treat AIDS in the VA so that facilities treating significant numbers of patients can receive realistic funding. As funding of this very complex disease or condition which involves multiple, not mutually exclusive, diagnoses was examined carefully, the possibility of a new DRG was raised and was very seriously considered as a way of adjusting the RAM model to account for AIDS. It appears now that developing a DRG method of funding for all of the diseases covered by the "diagnosis" AIDS is not as feasible as it may have appeared at first. It is interesting to note that the Health Care Financing Administration (HCFA) has independently looked at the issue and has no current plan to develop a DRG for AIDS. A Subcommittee of the RAM Task Force has been charged with recommending a methodology for the long-term funding of the AIDS caseload. While the Subcommittee has been hindered by the limited amount of data available on caseload, particularly in the outpatient area, and cost of care, this is being overcome. Considerable cost information has been gathered by the Subcommittee and is being analyzed at the present time. Data collection systems are being piloted and examined to meet future needs for information about the many factors which impact on costs and usage of both inpatient and outpatient services. It is anticipated that special funding allocations will be required at least through FY 1990.

Question: 62(b)(i). In FY 1987 and FY 1988, what special funding, if any, has been provided to VA medical centers for the treatment of veteran patients with AIDS, ARC, or other HIV-related illnesses, and which VAMCs received that funding?

Answer: $4 million was provided to seven VAMCs in FY 1987:

VAMC	FUNDS PROVIDED
New York	$1,028,000
West Los Angeles	786,200
Miami	743,000
San Francisco	466,500
Houston	380,100
Brooklyn	328,300
East Orange	267,800

$10 million has been distributed in 2nd Quarter FY 1988:

VAMC	PROPOSED FUNDING
New York	$2,159,468
East Orange	1,345,515
Houston	1,046,512
Bronx	946,844
Brooklyn	863,787
Miami	847,177
San Juan	813,953
West Los Angeles	797,342
San Francisco	631,229
San Diego	548,173

Question: 62(b)(ii). For each such VAMC, please provide data indicating the total cost (or estimated total cost) of treating AIDS and ARC patients in each of those years and the amount of special funding received.

Answer: It has been estimated that it cost $24,000 per patient per year to treat AIDS in the VA prior to the advent of AZT, which became commercially available in mid-1987. Although not all patients will be able to tolerate the drug or choose to take it, the cost of AZT (both the drug as well as outpatient visits for monitoring and treatment of complications) must now be added to the earlier estimates and this is being factored into the analysis currently being done by the RAM Task Force's Subcommittee on AIDS Funding. Prior to the fourth quarter of FY 87 when the AIDS Registry was automated, only cumulative data on new cases at each VAMC was available. However, yearly data on new cases by VAMC can now be combined with information from the FY 87 PTF, to allow the VA to make estimates of costs at individual VAMCs in the future. In the meantime, it has been estimated that an episode of inpatient care for an AIDS patient at the VAMC seeing the most AIDS patients in the system (New York) cost approximately $10,000 while only $3,000 was allocated under RAM, indicating a significant shortfall without the additional funding. (The shortfall systemwide per patient per year has been estimated to be $20,000.) The special funding provided for AIDS in FY 87 was based on the cumulative reporting of AIDS cases to VACO at the time of the designation. For FY 88, the Subcommittee on AIDS Funding of the RAM Task Force was charged with recommending a methodology for distributing $10 million reallocated from existing resources for AIDS. They recommended that the information available from the FY 86 PTF (which included only AIDS patient discharges) be used and that funding be allocated on a prorated basis to facilities that had treated at least 4% of the inpatient caseload.

Question: 62(c). What are the VA's total estimated costs for the care of AIDS and ARC patients in FY 1988 and FY 1989?

Answer: Using the current "best guess" cost estimate of $24,000 per patient per year plus $4.8 million which the Pharmacy Service estimates will be spent on AZT in FY 1988 and the estimated caseloads, AIDS care could cost approximately $62.4 million in 1988. It is estimated that the usage of AZT and therefore the costs associated with it will double in 1989. If so, the total costs for AIDS care in FY 1989 will be $76.9 million.

Question: 62(d). How much of the VA's total costs for treating AIDS and ARC patients is associated with providing AZT?

Answer: It is estimated that at current usage, the cost of AZT will be approximately $4.8 million in FY 1988. The FY 1989 cost is expected to be $9.6 million. These estimates are based on costs of $150.24 per bottle of 100 and reflect the 20% reduction in the wholesale price of the drug which occurred in 1987. AZT costs are often expressed in terms of cost per patient per year ($6,570) which is meaningful when discussing individual patients. However, it must be realized that AZT usage includes many veterans on the drug for varying periods.

Question: 62(e). How many veterans are receiving AZT through the VA?

Answer: At the end of August 1987, 515 veterans were receiving AZT through the VA. By January 11, 1988, this number had increased to 789 patients. (The number represents patients receiving AZT at those points in time. It is not a static situation since new patients are being started on the drug while others stop the drug because of death or complications at various times during any given period.)

Question: 63A. With regard to the "one percent productivity increase "discussed on page 6-15 of the VA budget documents, please describe the actions that are planned to be taken to increase productivity and how they will be translated into personnel reductions.

Answer: The Department currently plans that this 1,944 FTEE reduction will be taken proportionately across the board for each VA Medical Center. These reductions in staffing levels will be primarily in "indirect" or non-patient care areas, i.e., administrative, building management, and enginnering, etc. The Medical Center Director will have the discretion as to how these assigned FTEE reductions will be translated into the specific types of occupations reduced.

Question: 63B. Please indicate by facility and occupation the implementation plan which will result in the 1,944 FTEE reduction. If that is not known, how will it be determined and when?

Answer: Decisions regarding this and other budgetary changes will be made during the 1989 target allowance process over the next three months.

Question: 64. According to the VA budget documents, a staffing ratio adjustment of 1,684 will be implemented by 1990.

64A. Please describe the derivation of this staffing ratio adjustment, explain why these ratios are being adjusted downward, and explain how the incentive aspects of RAM are supposed to work when DM&S starts out about 4,000 FTEE below the number needed to continue current staffing and staff new activities.

Answer: The staffing ratio adjustment (1,684 in both 1989 and 1990) is based on the observation that during the first half of fiscal year 1987, the staff level was approximately 3,400 FTEE below the end of year actual but all eligible veterans who applied and were in need of care were served.

The RAM incentives are not affected because the RAM is a productivity management tool used to reallocate appropriated resources.

Question: 64B. What are the VA's target and actual staff-to-patient ratios in the medical bed sections, surgical bed sections, psychiatric bed sections, and intermediate bed sections for hospital care and in VA nursing homes, domiciliary care facilities, and outpatient clinics?

Answer: The VA does not have target staffing ratios by bed section for 1990. The staffing ratio adjustment contained in the FY 1989 budget represents a management initiative to base the operation of the Medical Care System on the staffing ratio existing during the first half of 1987 and then to adjust staffing for changes such as facility activations and productivity gains. Staffing ratios in the FY 1990 budget would thus reflect this initiative, actual 1988 experience, and programmatic adjustments that will be included in the FY 1990 budget.

Actual 1987 inpatient staffing ratios by bed section (page 6-34 of the 1989 budget) follow:

Staffing Ratios	FTEE/Census	FTEE/1000 Patients Treated
Medical bed section	2.97	102
Surgical bed section	3.88	112
Psychiatric bed section	1.76	140
Intermediate bed section	1.61	388
VA hospital (Total)	2.48	124
VA nursing home	1.26	540
VA domiciliary	.41	168
Outpatient FTEE/1,000 Visits	1.69	

Question: 64C. What are the target and actual staff-to-patient ratios in each bed section of university hospitals affiliated with the VA and generally at for-profit and not-for-profit hospitals in the private sector?

Answer: Comparable data are not available from university hospitals, or other private sector hospitals.

Question: 64D. Please indicate by facility and occupation the implementation plan which will result in the 1,684 FTEE reduction. If that is not known, how will it be determined and when?

Answer: The distribution of this change will be made as a part of the target allowance currently planned for completion by June 1, 1988.

Question: 65. The statement is made in the VA budget documents, page 6-15, that "the system staffing ratio for hospital and outpatient activities (employment to workload) will be reduced to the level that existed during the first half of FY 1987" Further, it is stated that "[t]he 1989 [FTEE] request provides sufficient resources and employment to provide hospital, outpatient, nursing homes and domiciliary care to all eligible veterans who request care and are found in need of care".

65A. How was the first half of FY 1987 selected as the benchmark for quality or quantity of care?

Answer: The first half of FY 1987 provides the most favorable recent actual experience of high productivity, based on the ratio comparison of staff to patients treated. VA medical centers have shown continuous productivity gains in recent years; workload has increased faster than employment. Productivity increases are documented in the Resource Allocation Methodology (RAM) data bases which measure weighted work units produced per FTEE and weighted work units per unique patient served.

During the first half of 1987, employment was under plan by approximately 3,400 FTEE while VA hospital inpatients treated and outpatient staff visits were over plan by 4,632 and 350,000 respectively.

Quality of care is not impacted by productivity improvements. Simply stated, a reduction in budgeted resources associated with a productivity increase assumes improved, not inferior workload production.

Question: 65B. Has the VA performed studies to determine whether or not the quality or quantity of care during the first half of FY 1987 exceeded that provided veterans before or since that time.

Answer: No.

Question: 65C. What measure is used by the VA to determine "sufficient" resources?

Answer: Workload and employment measures, such as staffing ratios and cost per workload unit are used. These indicate that even with budgetary reductions workload can be maintained or slightly increased. In 1989, the staffing ratio and the number of inpatients treated for VA hospital care are projected to increase over the 1988 estimates.

Question: 65D. The IG, in report published September 14, 1987, entitled "Audit of Unmet Demand for VA Medical Care," stated that there were delays of up to six months in providing certain outpatient services and in performing some medical and surgical procedures during the first quarter of FY 1987. Please comment on this statement which seems to contradict the statement quoted above in regard to sufficient resources being available to provide care to all eligible veterans who request it.

Answer: The IG in the report dated September 14, 1987, entitled "Audit of Unmet Demand for VA Medical Care" does not contradict the statement that "the 1989 [FTEE] request provides sufficient resources and employment to provide hospital, outpatient, nursing home and domiciliary care to all eligible veterans who request care and found in need of care." The official findings of the IG report state that "The audit found no evidence of unmet demand for VA medical care by eligible veterans. Eligible veterans' health care needs were being met at both medical centers reviewed, although there were delays of up to six months in providing certain outpatient services, and in performing some medical and surgical procedures. According to medical center health care professionals, these delays did not diminish the quality of medical care."

Evidence for the delays mentioned above was collected from site visits to two VA Medical Centers where demand for VA outpatient services and medical procedures is high. The delays for certain specialized outpatient services and elective medical and surgical procedures were not a result of limited VA resources but a result of shortages in a number of medical care specialities and "attendant nurse staffing" in the health care community where these medical centers are located.

Question: 66. Taking into account the difference between emergent, urgent, and "routine" outpatient care, is there an establisned and promulgated VA standard for the elapsed time between the time an eligible veteran requests and is found to be in need of care and the time he or she is provided such care?

66A. (If yes) What is that time?

66B. (If no) Is the VA planning on establishing one?

Answer: The VA does not utilize a rigid time standard for provision of medical care. Guidance has been provided to our medical centers indicating that patients with urgent and emergent conditions must receive expeditious handling, consistent with good medical practice. Other veterans are provided care consistent with their established Priority Group for care with first priority being given to service-connected veterans for outpatient and nursing home care and to Category A veterans for hospital care.

Question: 67. A reduction of $194,000 is anticipated in the VA budget (page 6-16) as a result of increased management involvement in reducing the injury/illness rate in VA facilities.

67A. Please describe this program, including the implementation plan and the amount of management time that it is expected to entail.

Answer: This program is designed to promote occupational safety and health utilizing the following strategies:

- Provide management officials detailed data on their employee's injuries/illnesses using the improved agency Occupational Safety and Health Management Information System (OSH-MIS).
- Track the data from the OSH-MIS and analyze injury/illness data which keeps management officials informed of the progress in the reduction of injuries/illnesses.
- The Administrator and his staff are personally involved in this program. The Administrator and his staff are provided facility safety and health "trip packs" on facilities they plan to visit.
- Each DM&S facility Director's Performance Standard includes safety as an evaluation element.

This program was implemented in 1987 and is currently being administered by the Designated Agency Safety and Health Official's staff.

Question: 67B. When did this effort begin?

Answer: The increased emphasis began in 1986 with the development of the OSH-MIS. Although the review of injury/illness data always existed, the detail and use of the data provided by the OSH-MIS gave new emphasis to this program area.

Question: 67C. What changes in injury/illness rates were accomplished in FY 1987 and thus far in FY 1988?

Answer: The injury/illness rates declined by 2.87% over the previous Fiscal Year. The agency's objective is to meet the president's five year goal of reducing by 15% the number of injuries/illnesses.

At the end of FY 1987, the fourth year of the President's five year goal, the VA had reduced the injury/illness rate by 14.87%. The first three months of FY 1988 have not shown a further decline in injuries/illnesses.

Question: 68. The VA budget documents (Page 6-17) describe a conversion of hospital beds to nursing beds which would result in a decrease of 289 acute-care hospital beds with a resultant decrease of 345 FTEE.

68A. In which facilities will hospital beds be decreased and how many and what type of beds would be affected in each?

Answer:

Chillcothe, OH	173	Psychiatry Beds
Dayton, OH	46	Domiciliary Beds
Canandaigua, NY	50	Other Unoccupied Space
Batavia, NY	35	Medicine
	304	
White River Jct, VT	-15	Nursing Home to Rehab Medicine Beds
Net Change	289 Beds	

Question: 68B. How was the 345 FTEE reduction determined?

Answer: Although determined on a facility by facility basis, the 345 FTEE reduction to VA hospitals, associated with the closing of hospital beds, is offset by the increase of 345 FTEE in VA nursing, associated with the staffing requirements to operate the converted hospital beds as nursing beds. For the medical care appropriation in total, the FTEE level does not change due to this action but only results in a more appropriate accounting by activity (shift from hospital to nursing) of where staff are needed. The staffing ratio of FTEE to beds (or census) in this initiative is approximately the 1987 actual reported staffing ratio for the VA nursing home activity.

Question: 68C(i). Will the locations of the increase in VA nursing beds correspond to the locations of the hospital bed closures?

Answer: Yes. Each of the medical centers had identified available hospital bed capacity as well as a need for additional nursing home beds. Proposals for the conversions to nursing home beds were submitted through MEDIPP.

Question: 68C(ii). Where will they be located and how many will be located in each facility? If that is not known, how will it be determined and when?

Answer: See answer 68A.

Question: 69. According to VA budgets (page 6-18), a decrease of $4.7 million and 79 FTEE is planned in FY 1989 to reduce staffing levels at some readjustment counseling centers based on caseloads, center closing, or relocation to VA medical centers.

69A. How much of this reduction would be carried out by horizontal cuts (i.e. staff reductions) and how much by vertical cuts (i.e. closing centers)?

Answer: The proportions of horizontal vs. vertical cuts have not yet been determined. Determining this will depend on analysis of workload at particular sites.

Question: 69B. What is the location of the centers where reductions in staff are proposed to occur and how many FTEEs will be affected in each such center?

Answer: Locations of the centers where reductions in staff would occur, and number of FTEEs affected have not yet been determined. Determination will depend on analysis of workload at particular sites.

Question: 69C. What is the location of each center that is proposed to be closed and what is the current year-to-date caseload in each?

Answer: Locations of centers proposed for closing have not yet been determined. Year-to-date caseloads as well as previous year caseloads would be reviewed to make this determination.

Question: 69D. What is the location of those centers planned for relocation and what is the current year-to-date caseload in each?

Answer: Sites for relocation have not been identified as yet; however, those also will be identified on the basis of workload factors.

Question: 69E. Please provide information on the amount of readjustment counseling services provided, both in-house and on a contract basis for each vet center and systemwide, for FYS 1984, 1985, 1986, 1987, and 1988 to date, and the demand projected for FYS 1989, 1990, and 1991.

Answer: The systemwide workload data is as follows:

	1984	1985	1986	1987
Vet Center Visits	479,351	447,962	593,652	600,225
Contract	*	140,290	92,479	94,918

*Contract data for 1984, collected under a system different from an improved system utilized subsequently, must be obtained from the field, and will be furnished as soon as available.

	1988	1989	1990	1991
Vet Center Visits (Projected Demand)	600,000	600,000	600,000	600,000
Contract Visits (Projected Demand)	95,000	95,000	95,000	95,000

The levels of demand for services for FYs 1988 through 1990 are projected as approximately flat, in light of our most recent experience of the trend observed from FY 1986 to FY 1987. During that interval, the number of visits increased by 1.1%. This increase was absorbed within the same level of resources, reflecting an increase in productivity.

The systemwide number of visits for vet centers for the first three months of FY 1988 is 137,768. The contracts visits number for the 1st quarter of FY 1988 is not yet available.

The workload data by station for vet centers and contracts is being assembled in the field and will be furnished when received.

Question: 69F. What is the timetable and program plan to implement over the FY for the proposed decrease in budget and FTEEs?

Answer: The FTEE reductions, closings, and contracts reductions would be implemented so as to commence at the beginning of the FY (October 1, 1988).

Question: 69G. What portion of the $4.7 million is directly related to the FTEE reductions and what portion to the reduced contracts portion of the program?

Answer: The portion of the reduction as between the FTEE reductions and the contracts program have not yet been determined, but will be determined according to analysis of workload.

Question: 70. An increase of $1.2 million and 27 FTEEs for positions entitled clinical evaluators is being requested to implement the Medical District Initiated Peer Review Organization (MEDIPRO) program (Budget documents 6-17).

70A. What qualifications are necessary to hold the position of clinical evaluator, what are the job responsibilities, and what is the salary range for the job?

Answer: Qualifications most useful to be a MEDIPRO clinical evaluator include a clinical background in nursing or experience as a registered record abstractor (RRA). Experience that is highly relevant includes chart reviews, quality assurance, utilization review, computer usage and data analysis. The ability to write and communicate effectively and the willingness to travel are necessary. Typical duties of the clinical evaluator include the following:

1. Provides clinical/technical expertise and assistance to the MEDIPRO Board:

   a. Analyzes data pertaining to trends of clinical care, practitioner/provider care patterns, and resource utilization;

   b. Delineates significant clinical data outliers and prioritizes clinical problems; and

   c. Assists MEDIPRO Board and Coordinator in designing studies and criteria to determine cause and/or scope of clinical problems.

2. Conducts criteria-based clinical record and follow-up reviews in order to obtain data requested by the MEDIPRO Board;

3. In cooperation with the MEDIPRO Coordinator, refers clinical records not meeting review criteria or requiring expertise in clinical interpretation to physician and dental advisors;

4. May provide MEDIPRO expertise to assist in meeting the educational needs of medical center staff involved in quality assurance activities.

Most individuals hired for the clinical evaluator position qualify for a GS 12 rating. The salary for this level ranges from $33,218 at Step 1 to $43,181 at Step 10, plus benefits.

Question: 70B. How many clinical evaluators will be located in each medical district?

Answer: There will be one additional clinical evaluator in each of the 27 medical districts.

Question: 70C. Please provide a summary of how the $1.277 million will be expended.

Answer: Of the $1.277 million, $1.195 million will be expended in salary and benefits costs for the 27 additional clinical evaluators and $82,000 will be spent in MEDIPRO Board and staff travel.

Question: 71A. Please describe how the $1,779 million decrease in the VA budget for non-VA programs due to one less calendar day (page 6-19) was computed.

Answer: The decrease for one less calendar day was computed by multiplying the 1989 projected per diem for each non-VA program by the base (1988) average daily census. The resulting one-day cost for all non-VA programs represents the one less calendar day (leap year's 366th day) savings expected in 1989.

Question: 71B. Was there a concomitant increase of FY 1988 because of the extra day--February 29?

Answer: Yes. The 1988 President's budget (page 5-22) requested an increase of $1,793,000 for the one extra day.

Question: 72. The VA budget documents (page 6-19) note that $4.461 million made available by Public Law 100-71 will be to used convert existing, underutilized VA hospital space to domiciliary beds for homeless veterans.

72A. In which facilities will this occur?

Answer: Existing underutilized space at the following facilities will be converted to domiciliary space:

VAMC Cleveland, OH
VAMC Tacoma, WA
VAMC Portland, OR
VAMC Little Rock, AR
VAMC Brooklyn, NY
VAMC Lyons, NJ
VAMC Coatesville, PA
VAMC Palo Alto, CA
VAMC North Chicago, IL
VAMC Montrose, NY

In addition, specialized homeless veteran programs have been activated within existing beds at the following domiciliaries:

VAMC Milwaukee, WI
VAMC Dayton, OH
VAMC Hampton, VA
VAMC Bay Pines, FL
VAMC Biloxi, MS
VAMC Mt. Home, TN
VAMC Hot Springs, SD
VAMC Leavenworth, KS
VAMC White City, OR
VAMC Los Angeles, CA

Question: 72B. What, if any, services will be reduced in size at these facilities?

Answer: The conversion of underutilized space will not reduce the size of any other services at these facilities.

Question: 72C. After the conversion of this space occurs, what will be the increase in capacity at each affected facility to house homeless veterans?

Answer: It is anticipated that increased capacity at each facility will be as follows:

VAMC Cleveland, OH	75 beds
VAMC Tacoma, WA	60 beds
VAMC Portland, OR	40 beds
VAMC Little Rock, AR	60 beds
VAMC Brooklyn, NY	50 beds
VAMC Lyons, NJ	40 beds
VAMC Coatesville, PA	40 beds
VAMC Palo Alto, CA	40 beds
VAMC North Chicago, IL	60 beds
VAMC Montrose, NY	60 beds
TOTAL	525 beds

Question: 72D. What is the projected 1989 funding level beyond the $20 million appropriated by Public Law 100-71 that will be needed to continue this program?

Answer: It is anticipated that FY 1989 costs associated with the continued operation of this program will be $10,367,000 and 269 FTEE. It is planned to meet these costs by an internal reallocation of resources.

It should be noted that $15 million of the $20 million provided by Public Law 100-71 was allocated to the Domiciliary Homeless Veteran Program. The remaining $5 million was allocated to the Homeless Chronically Mentally Ill (HCMI) Program.

Question: 73A. How much has been expended in FY 1988 for State home hospitals?

Answer: As of January 31, 1988, the cumulative obligation for state home hospital care was $858,551.

Question: 73B. What is the estimated FY 1988 obligation for per diem payments made to State home hospitals?

Answer: We estimate $2.9 million will be expended for state home hospital care.

Question: 73C. What portion of the overall request for State home per diem payments is for State home hospitals?

Answer: About 4 percent.

Question: 74A. What would be the estimated expense of implementing a system of indexing the salaries paid to scarce VA health-care professionals to those paid by the affiliated university or other index hospital in lieu of the current system of authorizing and paying "special rates"?

Answer: The cost of indexing the salaries of scarce VA health-care professionals to the salaries paid to index hospitals in lieu of the current system of special rates would appear to be marginally higher based on a "limited sample" review. The attached chart shows that the average rate paid to entry level registered nurses (RNs) at index hospitals is slightly higher (2.9%) than the average VA registered nurse entry level special rate.

This estimate is based on a sample of seventeen VAMCs (approximately 15% of those with special rates for RNs). The non-VA hosptials listed are those which are currently used as index hospitals for purposes of resident/intern stipend setting. The salaries used are those in effect at the time of the VA special rate authorization. The chart shows VA associate grade (entry level) salaries and equivalent entrance salaries for the index hospitals.

Since practices for salary progression (within grades, merit increases, promotions) for health-care occupations at non-Federal hospitals generally differ from those in VA, full indexing, e.g. beyond the entry level, would be difficult to assess without a more complete study. Also, data is not available at this time on "index hospital" salaries in those locations where special rates are not in effect; these may be, in some cases, lower than the statutory rates paid by VA.

Veterans Administration and Index Hospital
Entry Level Rates for Registered Nurses

VAMC	Entry Rate	Index Hospital	Equivalent Rate
Ann Arbor	$25,626	Uni. of Michigan	$25,168
Atlanta	22,546	Emory Uni.	23,531
Baltimore	23,190	Uni. of Maryland	26,312
Boston	28,911	Boston Uni.	30,077
Bronx	22,546	Mt. Sinai	27,616
Chicago (WS)	22,546	Uni. of Chicago	21,788
Denver	22,546	Uni. of Colorado	23,148
Loma Linda	23,684	Loma Linda Uni. M.C.	26,187
Lon Beach	27,054	Uni. of Ca. (Irvine)	24,044
Louisville	20,614	Uni. of Louisville	21,320
Minneapolis	23,834	Uni. of Minnesota	23,880
Nashville	22,341	Vanderbilt	21,882
New York City	28,254	New York Uni.	28,372
Philadelphia	25,122	Uni. of Pa.	26,818
Phoenix	22,582	Good Samaritan	23,316
San Francisco	28,986	Uni. of Ca. (S.F.)	30,816
W. Los Angeles	27,054	UCLA	25,189

Question: 74B. How much has been budgeted in FY 1989 for special rate increases for scarce health-care professionals?

Answer: The FY 1989 request includes $40 million specifically for special pay increases.

Question: 75A. How many new employees are expected to be hired under the medical care account in FY 1989?

Answer: Based on prior experience, approximately 1400 - 1600 new employees are hired on average under the medical care account each month. Using this as the basis, it is estimated that approximately 17,000 to 19,000 new employees will be hired in FY'89.

Question: 75B. What is the current turnover rate for medical care account employees?

Answer: The turnover rate for full time employees for the entire Department of Medicine and Surgery for FY 1987 was approximately 21%. Precise data on only medical care account employees are not readily available; however, since the departmental figure is driven by medical care employment activity it is believed to be an accurate representation of turnover among employees in that account.

Question: 75C. What are the projected turnover rates for those employees for each of FYs 1988 and 1989?

Answer: The current indication is that turnover rates are increasing; however, hard data are not available to predict with accuracy the rate of increase.

Question: 76. According to the "briefing" documents distributed to Congressional staff on February 18, 1988 in regard to the FY 1989 budget, "(F)or the first time the budget year payraise is anticipated within the President's request. The budget funds the proposed 2 percent pay increase for FY 89 in each account at the absorption rate assumed in recent budgets." What are or/were the absorption rates for the medical care, research, MAMOE, GOE, and minor construction accounts for FY 1989 and 1988 and in the cases of FYs 1983 through 1987 what were the absorption rates proposed in the budgets for these FYs and the absorption rates required under the appropriation measures ultimately enacted?

Answer: The attached table provides an analysis of pay costs for the fiscal years 1983 through 1989. In FY 1986, a pay raise was not enacted.

VETERANS ADMINISTRATION
FY 1983 - FY 1989 Pay Raise Analysis
(dollars in thousands)

	Medical Care	Medical & Prosthetic Research	MAMOE	Construction Minor Project (Con admin) (See Note)	General Operating Expenses	Total, VA
FY 1983						
Required pay costs	240,546	5,713	2,021	1,384	27,095	276,759
Absorption	59,101	3,539	939	1,384	23,943	88,906
Absorption percentage	25%	62%	46%	100%	88%	32%
Pay Supplemental Request	181,445	2,174	1,082	...	3,152	187,853
Enacted Supplemental (P.L. 98-270)	180,168	2,174	613	...	2,152	185,107
Actual percentage absorbed	25%	62%	70%	100%	92%	33%
FY 1984						
Required pay costs	147,779	3,148	976	669	17,096	169,667
Absorption	29,091	1,767	525	669	9,285	41,336
Absorption percentage	20%	56%	54%	100%	54%	24%
Pay Supplemental Request	118,688	1,381	451	...	7,811	128,331
Enacted Supplemental (P.L. 98-396)	158,688	1,381	...	334	...	160,403
Actual percentage absorbed	-7%	56%	100%	50%	100%	5%
FY 1985						
Required pay costs	178,219	3,812	1,160	371	16,723	200,285
Absorption	105,695	3,812	1,160	371	8,791	119,829
Absorption percentage	59%	100%	100%	100%	53%	60%
Pay Supplemental Request	72,524	0	0	0	7,932	80,456
Enacted Supplemental (P.L. 99-88)	152,524	...	...	371	3,500	156,395
Actual percentage absorbed	14%	100%	100%	0%	79%	22%

FY 1986 no pay raise enacted.

	Medical Care	Medical & Prosthetic Research	MAMOE	Construction Minor Project (Con admin) (See Note)	General Operating Expenses	Total, VA
FY 1987						
Required pay costs	149,391	3,718	736	665	10,925	165,435
Absorption	74,696	1,959	...	665	10,925	88,245
Absorption percentage	50%	53%	0%	100%	100%	53%
Pay Supplemental Request	74,695	1,759	736	...	...	77,190
Enacted Supplemental (P.L. 100-71)	149,391	1,859	400	...	5,500	157,150
Actual percentage absorbed	0%	50%	46%	100%	50%	5%
FY 1988						
Required pay costs	92,769 1/	2,053	426	495	7,872	103,615
Absorption	...	2,053	426	495	7,872	10,846
Absorption percentage	0%	100%	100%	100%	100%	10%
FY 1989						
Required pay costs	82,821	2,260	464	651	7,820	94,016
Absorption	41,411	1,130	232	651	7,820	51,244
Absorption percentage	50%	50%	50%	100%	100%	55%

1/ The Congress provided sufficient resources in P.L. 100-202 to fund this pay raise.
NOTE: Represents an increase in the limitation for expenses of the Office of Facilities to cover the cost associated with civilian pay raises.

Question: 77. The VA budget reflects an increase to fund only one-half of the anticipated 1989 two-percent pay raise for the medical care account. The remainder, $42,375,000, is expected to be funded from the base requested for VA medical care "as other requirements change". What "other requirements" are expected to change and what will be the monetary effect of these changes?

Answer: The budget anticipates that a .4 percent absorption can be made from a $10.3 billion appropriation base by effectively managing resources. In the past, resources have been made available from sources such as temporary delays in equipment funding, improved efficiency and realignment of existing resources.

Question: 78. What percentage increase was used when preparing the VA budget to calculate the inflation increase for medical supplies?

Answer: The percentage increase used in the 1989 VA budget request for calculating the inflation increase for medical supplies was 6.1 percent. This percent increase is OMB's economomic assumption estimate for medical commodities and is applied to specific medically related objects of expense in the medical care appropriation. A lower percent, 3.9 percent (the Federal Non-defense, Non-pay purchase deflator), is applied to non-medical related objects of expense (e.g. travel, transportation, printing, etc.). The composite inflation rate (resultant percent increase of resources required for inflation after both rates are applied to the appropriation) for 1989 is 5.8 percent.

Question: 79. The budget documents (pages 6-35 and 36) include projected reductions in FY 1989 in the estimated length of stay for patients on the medical bed section by 0.4 days; surgical bed section by 0.6 days; psychiatric bed section by 1.9 days; intermediate bed section by 9.5 days; VA nursing homes by 10.0 days; and VA domiciliary care facilities by 13.5 days.

79A. Please provide statistics in regard to the length of stay in each bed section for FYs 1980 through 1987.

Answer: The requested average-length-of-stay data, stated in days, are as follows:

Fiscal	VA Hospital Bed Sections				VA	VA
Year	Med.	Surg.	Psych.	I'mediate	N.H.	Doms
1980	21.4	16.7	46.5	304.4	492.4	480.7
1981	21.0	16.0	46.8	258.8	488.1	460.9
1982	19.4	15.5	47.0	266.0	443.5	435.6
1983	19.2	15.1	46.9	242.3	402.7	445.2
1984	17.6	14.2	47.7	218.7	427.6	438.3
1985	16.0	13.1	43.7	201.2	365.1	392.7
1986	14.4	11.8	36.7	169.3	303.3	352.4
1987	13.2	10.9	31.2	130.5	271.4	296.3

Note: Beginning in FY 1988, one-day dialysis workload has been reclassified from inpatient care to outpatient care. In the FY 1989 budget documents, one-day dialysis workload has also been shifted from inpatient to outpatient care for FY 1987, so that data for that year will be comparable to data shown in the budget for FYs 1988-93. For the same reason, one-day dialysis workload has been excluded for all years from the length-of-stay data presented above.

Question: 79B. To what extent is the RAM responsible for the reduced length of stay for each bed section?

Answer: We have no feasible way of isolating the impact of the RAM from that of other factors that are also affecting length of stay. The RAM was first used to allocate inpatient resources in FY 1985, based on actual data for FY 1983, but except for psychiatry bed section, VA hospital lengths of stay were already declining before that. In the case of nursing home care, the long-term RAM, which was first applied in FY 1986, does not operate in such a way as to encourage shorter lengths of stay, yet lengths of stay in that program were declining before FY 1986, and have continued to decline since. To date, there is no RAM for the VA domiciliary program, but lengths of stay are declining in that program as well. In summary, lengths of stay are declining because of changes in the way medical care is being delivered. It is safe to say that in the case of VA hospital care, the trend toward shorter lengths of stay has been helped along by the RAM, but no way has been found to measure the exact amount of that impact.

Question: 79C. How are the reduced lengths of stay expected to be accomplished?

Answer: Reduced lengths of stay in FY 1989 are expected to be accomplished via continuation of recent trends: medical advances (examples: lithotripsy instead of major surgery for kidney stones; ambulatory surgery in place of inpatient surgery); earlier discharge of hospital patients to nursing home care; and earlier discharge of hospital, nursing home, and domiciliary patients to non-institutional care, such as outpatient care and home care programs.

Question: 79D. What plans are being made to provide care outside traditional VA beds for veterans who are being discharged earlier than previously?

Answer: The significant increases included in the FY 1989 budget for medical care in other than VA beds are in community nursing home care (increase of 264 average daily census), state home nursing care (increase of 925 average daily census), and staff outpatient care (increase of 211,000 visits).

QUESTION 80: With respect to the Los Angeles, San Francisco, and San Diego Regional Offices, please describe (1) your plans for any additional terminals or enhancements to the WANG office system during FYs 1988 and 1989, and (2) how you will automate the loan guaranty functions of these offices with a corresponding implementation schedule following completion of the Loan Production System at the 3 prototype sites.

ANSWER 80: There are no specific plans at this time to make any significant enhancements to the WANG systems at the three offices. In 1987, though, funds in excess of our original plans were sent to individual stations for the procurement of automated data processing equipment. However, in the future, minor changes may be made that include increased memory to improve system performance, additional software to facilitate better utilization of the systems, and minor incremental increases of terminal and/or printer devices to provide system access to more users. In addition, a number of "Short Term Improvement Projects" are being evaluated in cost-benefit studies for possible implementation. The Loan Production System (LPS) is one of the projects under study. Many of these projects, including LPS, are being considered for WANG implementation. The outcome of the cost-benefit studies and the experience we gain using prototypes will help to determine the priority of the short term projects and the most effective technical solutions. We expect to make decisions this summer.

Question 81: On page 22-5 of the budget documents, the fifth paragraph states that all staff offices show either a decrease or zero growth in staffing through increased efficiency which has been achieved with office automation and contracting out of Government activities.

A. What cost-benefit studies have been conducted at VA Central Office and also at Regional Offices on the relationship between office automation and personnel requirements and what have been the findings of these studies?

Answer 81A: From an Agency standpoint, any major office automation (O/A) acquisition requires cost benefit studies. Agency policy requires that acquisition requests for information resources (including O/A systems) with an estimated cost equal to or in excess of $50,000 or a one-time cost basis of $2,500 monthly must be approved by the Associate Deputy Administrator for Management. This approval requires a cost benefit analysis which shows a positive benefit to the Government of 10 percent or more over the useful life of the acquisition. The positive benefit may and often does include a combination of personnel services savings and non-payroll savings.

QUESTION 81B: With respect to each category (such) as veterans' services, finance, loan guaranty, and adjudication) of VARO personnel, and each VACO staff office, as to which a staffing decrease is proposed, please describe the specific nature of the productivity increases that the VA has achieved or plans to achieve and the basis for determining that such increases are fully achievable in FY 1989.

ANSWER 81B: Veterans Services

Productivity increases in Veterans Services are expected to be achieved as the result of several initiatives. Many field divisions have consolidated their work activities in an effort to optimize personnel resources and to increase the number of hours available for telephone interview activity. Others have enhanced productivity through new call-handing equipment which provides better overall control and management. Also, a pilot test of recorded telephone messages currently under way will determine whether information can be provided to the public in a much more cost-effective manner.

Vocational Rehabilitation and Counseling

Productivity increases in 1989 in VR&C will be accomplished through the use of the Computer Assisted Information System (CAIS). In 1989 all 90 counseling sites will be under this system, which will provide for a more efficient professional review system in VR&C.

Compensation Pension and Education

In recent years the level of training provided to personnel in the CP&E program has increased significantly. This resulted from the need to increase the capabilities of Adjudication Divisions due to the loss of experienced personnel during the early out retirement in 1986. This training is expected to provide increased productivity in 1989. Also, greater efficiencies are anticipated in our Education program because of the use of modern technology.

Insurance

Productivity increases are expected to result from the phase-in of the toll-free telephone service, continuing progress on the redesign of the Insurance Computer System, and the implementation of the new pre-authorized deduction method of paying premiums.

Loan Guaranty

Productivity increases will primarily be achieved by liberalizing the qualifications for automation lending authority, expansion of the Loan Production System and other modernization initiatives, and savings expected from the Pilot Property Management program.

Indirect Support (Personnel, Finance, Administrative Services and Executive Direction)

Increases in productivity in these programs are primarily anticipated from office automation and BIRLS redesign which were implemented in previous fiscal years.

Staff Offices

Productivity savings in the staff offices total 70 FTEE. The savings result from Most Efficient Organizations (MEO) studies performed by the Austin and Philadelphia DPCs (16 FTEE); implementation of OMB Circular A-76 in the VACO mail and audio-visuals activities (23 FTEE); and office automation (31 FTEE).

82. In the Administrator's November 6, 1987, letter to me regarding the effectiveness and timeliness of program evaluations, he indicated that he would conduct an assessment of the VA program evaluation function with the aid of a contractor in order to have information on which to base any needed changes.

Question: A. Please identify the contractor conducting this assessment and provide a timetable for completing each of its phases.

B. Please submit a copy of the statement of work for this assessment and, if the study has been completed, a copy of the contractor's assessment report.

Answer: This assessment will be conducted using a comparative analysis of our current in-house evaluation process with the contracted evaluation of three VA nursing home care programs. The nursing home care evaluations are scheduled for completion in October 1988, and thereafter the comparative assessment will be conducted. We expect to complete the Statement of Work and select a contractor during November 1988.

QUESTION 83(a),(b),(c): The Administration's FY 1989 VA budget (page 22-23) states that, as a result of the NARS v. Turnage and Semenchuk v. Walters, "case reviews initiated by Central Office are projected to increase through 1988 and 1989."

(a) Why and in what ways are those lawsuits expected to have such effect?

(b) Please quantify, separately for FYs 1988 and 1989, the estimated amount of such case review increases.

(c) What actions are planned to ensure that sufficient resources are available for such reviews without adversely affecting other DVB functions?

ANSWER 83(a),(b),(c): At the time the Administration budget was originally prepared, the reviews which would result from the two court cases could not be accurately determined. Therefore, it was decided that it was safest to anticipate an increase. Based on a better understanding of what is involved and the actual number of reviews conducted during FY 1987 we have changed our projections to show no overall increase in Central Office case reviews, but rather a decrease in such reviews. The realization that the actual ancillary actions would not conform to the forecast occurred after the Administration's budget had been forwarded and coincided with the fact that the Semenchuk consent decree would result in additional ancillary actions at the regional office level. We currently believe that the consolidated effect will be an overall decrease in the category as compared to previous years. This is a very fluid area and as we gain more experience with the effects of litigation, further adjustments may be required.

QUESTION 84(a): The VA budget documents (pages 22-18, 22-22, 22-28, 22-31, 22-35 and 22-46) describe certain of the reduced FTEE levels under the GOE account for FY 1989 as reflecting "the estimated resources needed to accomplish anticipated workload" at "acceptable levels of service".

(a) In FY 1988, are all GOE-funded Central Office and regional office components currently meeting the VA's standards for quality and timeliness in the areas where the FY 1989 FTEE cuts are proposed?

RESPONSE 84(a): Data reported through the VA Automated Management Information System (AMIS) is the source used for information pertaining to program quality and timeliness.

Quality, as measured by error rates, will continue to be emphasized with no expected deterioration from the "met" standards.

Timeliness standards are being met in almost all programs. Compensation and Pension claims are slightly below standards at this time.

QUESTION 84(b)(i): Will such standards be met if the proposed cuts in FY 1989 FTEE are made?

RESPONSE 84(b)(i): We expect to be able to meet our responsibilities and provide continued good service to our veteran population.

QUESTION 85(a): What level of funding and FTEE did the VA originally request from OMB for the following DVB programs:

ANSWER 85(a): The following level of funding and FTEE was requested:

	DVB Request 1/ (Obligations (000's)	FTEE Requested
Executive Direction	$ 24,787	440
Veterans Services	69,144	2,095
Compensation, Pension, and Education	117,360	3,320
Loan Guaranty	67,009	2,102
Insurance	11,188	462
Vocational Rehabilitation and Counseling	27,024	641
ADP Systems Management	45,517	429
Support Services	178,778	2,966
Total	$540,807	12,455

1/ did not include any funding for the January pay raise

QUESTION 85(b): Please list the amount of the OMB disallowance, if any, made with respect to each of those requests.

ANSWER 85(b): The level of total obligations contained in the President's budget for DVB is $27.7 million or 5.1 percent below the level requested. OMB did not prescribe the distribution of the budget allowance, which was made by the VA on the basis of the best mix of available resources.

QUESTION 85(c): Please describe the programmatic and budgetary adjustments made as a result of each of those disallowances.

ANSWER 85(c): Please see answer to Question 85(b).

QUESTION 85(d): Please describe the effect of each of the disallowances on --

(i) staff-workload ratios; and

(ii) the VA's ability to meet its timeliness and quality standards.

ANSWER 85(d): We expect to be able to meet our responsibilities and provide continued good service to our beneficiary population.

QUESTION 86(a): The Independent Budget recommends that 15 FTEE and $600,000 be provided for a training unit for benefits program staff, in order to improve the quality and consistency of benefits adjudications. What effect would such a training unit have on the quality of VA claims adjudication?

ANSWER 86(a): We have not considered this proposal during the budget process and know very little about it. We, therefore, have no basis for judging its potential effectiveness.

QUESTION 86(b): The Independent Budget recommends that 15 FTEE and $600,000 be provided for a training unit for benefits program staff, in order to improve the quality and consistency of benefits adjudications. Would the provision of such a training unit be cost-effective, in either the long-term or the short-term? (Please give the reasons for your answer.)

ANSWER 86(b): We have not considered this proposal during the budget process and know very little about it. We, therefore, have no basis for judging its potential effectiveness.

QUESTION 87: The Independent Budget recommends that one of the VA's top budget priorities should be putting the Loan Guaranty Revolving Fund (LGRF) on a "sound financial footing". What steps is the VA taking to improve the financial solvency and stability of the LGRF?

ANSWER 87: The substantial increases in the cost of the VA home loan guaranty program over the past 10 years have come not from staff and operating costs (GOE), but claims made against the Loan Guaranty Revolving Fund, due to increasing numbers of defaults and foreclosures.

VA is planning a pilot test of the impact of increased levels of servicing on loan foreclosure rates. Additional loan service technicians will be hired in one regional office, to determine the cost/benefit relationship between additional loan servicing and reduced claims.

The cost of liquidation appraisals, formerly paid from the Revolving Fund, is now paid by the lender, and included in the lender's claim, which may be recovered from the borrower through the debt collection process.

Steps have been taken to shorten time of foreclosure on loans in insoluble default, thus reducing VA's holding time and costs substantially.

Once claims are paid and properties acquired, property management costs can be reduced by selling the properties promptly. A number of steps are being taken to speed this marketing effort: increased brokers' commissions and bonuses for cash sales; use of private sector property listing services; computer based "bulletin boards" to speed up distribution of property listings to local brokers; auction sales where appropriate; increased discount for cash sales, etc. VA will also conduct a test on contracting out the property management and sales function on 10% of our inventory.

In addition to these efforts, a major automation program is underway within the VA home loan program. When implemented, this new system will enable VA to serve veterans in a more efficient, cost effective manner than was previously possible.

The VA budget documents (page 2-4) contain the following description of the Administration's proposed federal credit subsidy legislation as it relates to the VA: It "will identify the grant equivalent subsidy of Federal Credit programs" and will "require subsidy payments to a central revolving fund at Treasury prior to making a loan."

The budget documents state that the grant equivalent subsidy value for guaranteed loans is 6.6 percent in FY 1989, 6.7 percent in 1990, and 6.8 percent thereafter.

Question 88(a)(i): How and on the basis of what assumptions were the amounts of these subsidies calculated?

Answer 88(a)(i): In determining the grant-equivalent subsidy percentage rate, it was necessary to compare the terms of a home loan provided in the private sector with the loans available to veterans from the Federal Government. The comparison included the interest rate, terms of the loan, grace period, funding fees and other items such as mortgage insurance. The foreclosure rate of VA guaranteed home loans helped determine the level of mortgage required for a no down payment loan.

The subsidy rate represents the net present value of the cost of the mortgage insurance for approximately 12 years. This is typically how long mortgage holders pay the insurance until the loan to value ratio is less than 80 percent.

Once the subsidy rate was determined, the amount of subsidy was calculated by multiplying the subsidy rate against the amount of proposed guarantee commitments for that fiscal year.

Question 88(a)(ii): Why is the amount of the subsidy expected to increase from 1989 to 1991?

Answer 88(a)(ii): The grant-equivalent subsidy reflects the difference between the financial terms a veteran receives when obtaining a home loan from the private sector as compared to the Federal Government. The variation in the grant-equivalent (subsidy) percentage reflects the differences in anticipated interest rates based on the Administration's economic assumptions and private sector mortgage insurance rates. Therefore, as the variation between the interest rates and the economic assumptions increase, so will the subsidy percentage.

Page 14 of the VA's "Budget in Brief" indicates that the LGRF subsidy appropriation that would be required as a result of the legislation would be $1.34 billion, based on the Administration's estimate that the amount of loans which will be guaranteed in 1989 will be $17,940,438,000 and the amount for which vendee loans which will be made will be $1,035,137,000.

Question 88(b)(i): If these estimates prove to be too low and the LGRF subsidy appropriation is exhausted prior to the end of 1989, would additional appropriations be required before the VA would be authorized to continue to guarantee and make loans?

Answer 88(b)(i): The Administration considers the veterans home loan program to be an entitlement program. Nothing in the credit reform proposal alters the credit programs Congress has enacted or changes the existing authority of agencies to operate these programs. Agencies will continue to arrange and approve direct loans and guarantees in the way they do now. Thus, its implementation would not impact either the veterans' benefits or the operation of the program.

Currently, there is no limitation on the level of loans guaranteed by the VA in any year. This fact is reiterated in the Special Analyses section of the 1989 President's budget. The Special Analyses Budget (page F-14) states: "limitations are not proposed for programs in which authorizing legislation provides a clear entitlement to qualified applicants." the subsidy appropriation language for the LGRF will reflect this fact by requesting permanent indefinite appropriation.

Further details on the specifics of how Treasury will adjust for initial estimates of credit subsidies will accompany the Administration's proposed legislation.

Question 88(b)(ii): What would happen if such additional appropriations were not provided?

Answer 88(b)(ii): Based on our understanding of the proposed legislation, this could not happen.

As stated in our response to question 88(b)(i), the subsidy appropriation language for LGRF will be permanent indefinite. Therefore, the subsidy will in no way control the LGRF program level and the situation revised in the question is impossible.

Question 88(b)(iii): If the credit subsidy legislation were enacted, would receipts from the 1 percent loan fee, sales of VA-acquired foreclosed properties, and vendee loan sales continue to be deposited in the LGRF?

Answer 88(b)(iii): Before answering the specifics of the question, it is first necessary to understand what credit reform would do. All transactions associated with guarantees made prior to October 1, 1988, or the effective date of credit reform, would continue to be funded and received by the existing LGRF appropriation. After the effective date of credit reform, all loan guarantees by the Federal Government will be guarantees of the new Federal Credit Guaranteed Revolving Fund (Guaranteed Loan Fund) in Treasury. Below is a specific explanation of each of the items listed in the question:

o 1 percent loan fee - Since collection of the funding fee is made from new loan guarantees, these receipts would be transferred to the Guaranteed Loan Fund in Treasury. Collection of the 1 percent loan fee is used in calculating the grant-equivalent subsidy.

- Sales of VA acquired properties - both the acquisition and sale of acquired properties are dependent upon when the initial guarantee was made. If the original guarantee occurred prior to enactment of Credit Reform, both the acquisition of the property, as well as the sale, whether on a cash or vendee basis, would continue to be received by the existing LGRF appropriation.

  The Guaranteed Loan fund would record obligations and receive receipts from guarantees made after enactment of Credit Reform.

Beginning in fiscal year 1989 all direct loans of the Federal government will be direct loans of the Direct Loan Fund. Federal agencies will, through their subsidy accounts, obligate the subsidy portion of the loan. The Federal agencies will select the borrowers and will establish the terms and conditions of the loan contract. The Federal agencies will be limited in their authority to write loans to the authority provided in program authorizations.

The obligation of the subsidy by the agency will obligate simultaneously the Direct Loan Fund to provide financing for the nonsubsidized portion of the loan. Payments of principal and interest by the borrower will be made to the Fund through the agencies.

The budget proposals for all direct loan programs will, beginning in fiscal year 1989, contain both a program level measure -- total direct loan obligations -- and an estimate of the subsidies to be provided.

The President's Fiscal Year 1989 Budget reflects the effects of the proposed Act. The Act requires both a program level limitation and a subsidy appropriation to provide for continued use of the credit budget controls and to add the grant-equivalent subsidy measure. The subsidy estimate in the President's Budget are consistent with the program levels requested.

Beginning in fiscal year 1989 all loan guarantees by the Federal Government will be guarantees of the Guaranteed Loan Fund. Federal agencies will, through their subsidy accounts, obligate the subsidy portion of the loan. The Federal agencies will select the borrowers and will establish the terms and conditions of the loan contract. The Federal agencies will be limited in their authority to guarantee loans to the authority provided in program authorizations. The obligation of the subsidy by the agency will commit the Guaranteed Loan fund to guarantee the loan. The loan guarantee commitment will be recorded on the books of the Fund. Payments of loan guarantee fees by the borrower will be made to the Fund, less administrative expenses of the Federal agency otherwise authorized by law and subject to limitation in appropriation acts.

The budget proposals for all loan guarantee programs will, beginning in fiscal year 1989, contain both a program level measure -- total loan guarantee commitments -- and an estimate of the subsidies to be provided.

The President's Fiscal Year 1989 Budget reflects the effects of the proposed Act. The Act requires both credit budget controls on the volume of loan guarantee commitments and a subsidy appropriation. The subsidy estimates in the President's Budget are consistent with the program levels requested.

In regards to vendee loans, the budget anticipates that receipts from the sale of properties guaranteed prior to credit reform on a vendee basis would be received by the Loan Guaranty Revolving Fund.

More details will be provided with the formal submission of the Administration's legislative proposal. Any changes or revisions to this procedure may require a revision to the current budget estimate.

Question 88(b)(iv): Please describe how the VA's loan guaranty program would be funded under the credit subsidy legislation, including any changes in the role and operation of the Loan Guaranty Revolving Fund.

Answer 88(b)(iv): Enactment of the credit reform proposal would result in the establishment of a new subsidy appropriation account for the VA's home loan program and a new revolving fund in the Department of Treasury. The existing Loan Guaranty Revolving Fund would fund activities associated with the guarantees made prior to October 1, 1988 (anticipated enactment of credit reform). Funding would come primarily from the sale of homes (acquired through guarantees made prior to credit reform), sale of homes on a term basis through transfers from Treasury, and appropriations to the Loan Guaranty Revolving Fund appropriation.

The new account is called the Loan Guaranty Revolving Fund Subsidies account. This account would be established at the Treasury. As loans are guaranteed, the grant equivalent subsidy would be transferred to the Treasury account. In addition, the 1 percent funding fee would also be transferred to this account.

All transactions, both obligations and receipts, associated with homes guaranteed or vendee (direct) loans established after enactment of credit reform, would be funded from the subsidy account.

The credit reform proposal is program neutral. The veterans ability to obtain a guarantee as well as the VA's role in guaranteeing loans, servicing loans, and acquiring properties would remain unchanged.

QUESTION 88(c): The VA budget documents (page 2-4) show $246.5 million reductions in both budget authority and outlays for FY 1989 as a result of the proposed credit reform legislation. How are those savings derived?

ANSWER 88(c): Shown below is a summary of program obligations, collections, budget authority and outlays under existing legislation and credit reform.

(dollars in thousands)

	Existing	Credit Reform	Difference
Obligations	$3,668,800	$2,681,400	$-987,400
Collections	-2,980,800	-2,239,900	+740,900
Unobligated balance (SOY)	- 55,777	- 55,777	...
Unobligated balance (EOY)	25,777	25,777	...
Budget Authority	$ 658,000	$ 411,500	$-246,500
Relation of obligations to outlays			
Obligations incurred, net	$ 688,000	$ 441,500	$-246,500
Obligated balance (SOY)	106,320	106,320	...
Obligated balance (EOY)	- 111,320	- 111,320	...
Outlays	$ 683,000	$ 436,500	$-246,500

The significant decline in obligations of the Loan Guaranty Revolving Fund is attributable to recording, in a new Treasury Direct Loan Revolving Fund, $987.4 million that would otherwise have been included as obligations of the VA's Loan Guaranty Revolving Fund. The primary reduction would be $957.4 million in vendee (direct) loans. These loans will require $153.2 million in grant equivalent subsidies which will be financed through the Treasury Direct Loan Revolving Fund. In addition, Treasury will reimburse the Agency the face value of these loans, thus allowing the Agency the full use of these funds, without a corresponding obligation.

The shift in collections to the Treasury Fund includes the following:

- $404.5 million in fewer net loan sales.
- $181.4 million in funding fee revenue. This revenue will be recorded as a Treasury collection.
- Other collections totalling $155 million, primarily from cash sale of properties ($67.8 million), interest on loans revenue ($64.2 million) and collections on veterans indebtedness ($21.6 million).

QUESTION 89: The estimates of the FY 1989 loan guaranty workload are based in part on an anticipated reduced demand for mortgage financing because of higher interest rates. What effect is the VA's recent one-point reduction (to 9.5 percent) of the maximum VA interest rate on conventional mortgage loans expected to have on all loan guaranty workload estimates?

ANSWER 89: We believe our workload estimates are accurate as presented in the FY 1989 budget submission. In developing FY 1989 Loan Guaranty workload estimates we assumed that the maximum interest rate on GI home loans would fluctuate in the 9 to 11 percent range during FY 1988 and FY 1989. The maximum interest rate remains within this range with the February 1st decrease from 10.5 percent to 9.5 percent. We expect that appraisal and loan origination workloads will be down sharply over the FY 1986-87 period. On March 3, 1986, the maximum interest rate decreased to 9.5 percent. At that time the rate had not been less than 10 percent since April 1979. During much of this period home loan interest rates had been in the 12-14 percent range. The drop in rate in early 1986 released a flood of pent up demand for real estate financing, for new home purchases and refinancing. Much of this pent up demand has been satisfied even though interest rates remain relatively low compared with most of the 1980's. Our estimates of fewer loans closed is consistent with projections by the Mortgage Bankers Association, National Association of Home Builders and other housing industry groups who are also predicting lower activity.

The one-percent decrease in interest rates should have a minimal impact on defaults, foreclosures and property management workloads. These workloads are driven by economic conditions and the level of loan originations in prior years. However, the lower rates should help somewhat on acquired property sales.

The Administration's FY 1988 original budget estimate of the costs of acquiring foreclosed homes has been increased in the FY 1989 budget document (page 2-5) by $575,728,000 -- from $1,160,336,000 to $1,736,064,000.

QUESTION 90(a): What factors account for this 50-percent increase in the estimate?

ANSWER 90(a): The FY 1988 Budget Submission was finalized in late fall of 1986. At that time we were forecasting an improvement in the number of GI loan foreclosures. Our view was that the economic problems in the Southwestern U.S. had reached bottom and that we would begin to see a decrease in property acquisitions to 23,690 by FY 1988. Clearly this will not happen. Property acquisitions in FY 1987 totaled 30,906 and the number of defaults pending and claims filed indicate that we will not see improvement, but even higher acquisitions in FY 1988. We are now projecting 38,400 property acquisitions in FY 1988. For the first four months of this fiscal year acquisitions have totaled 12,488 ($550 million).

QUESTION 90(b): On what factors has the VA based its projection that the cost of the acquisition of such homes will actually decline by more than $35 million in FY 1989?

ANSWER 90(b): There are some positive signs that the level of foreclosures in the future should begin to decrease. The number of new GI defaults reported remained constant in FY 1987 (182,058) compared with FY 1986 (182,371). This trend has continued through the first quarter of FY 1987. We are expecting that this will lead to a small (five percent) decrease in property acquisitions in FY 1989.

The VA documents (page 2-4) indicate a $526.6 million deficiency -- which is more than 135 percent greater than the entire Administration-requested FY 1988 LGRF appropriation of $389.8 million for FY 1988 in the loan guaranty program.

Question 91(a)(i): How does the VA expect to fund that deficiency?

Answer 91(a)(i): It is currently anticipated that as a result of high foreclosure and property acquisition costs, primarily in Houston, Denver, etc., legal obligations will exceed the funding received through the 1988 appropriation and normal receipts. As a result, additional appropriations would be required to fund these obligations in 1988.

Question 91(a)(ii): If a supplemental will be submitted, when will that be done?

Answer 91(a)(ii): It is our understanding that a supplemental request will be submitted to Congress in the near future.

QUESTION 91(b): What has been done in calculating the funding needed for the LGRF in FY 1989 to prevent such a funding shortfall from recurring in FY 1989?

ANSWER 91(b): The 1989 estimates for obligations and collections were calculated using the latest available information and experience, while attempting to maximize collections. These estimates include higher amounts for foreclosures based on recent trends developing in the first quarter of FY 1988. During 1989, the Agency expects to accelerate the sale of older portfolio loans. The face value of $561.8 million of older/low interest rate loans and $778.8 million of current production loans will net $780.7 million in 1989. Of the 42,550 properties that will be sold, 50 percent will be on a cash basis. Based upon the assumption of a 50/50 split between cash and term sales and combined with the 5 percent downpayment requirement on term sales, it is expected receipts will increase by $79.5 million. The recently enrolled bill, granting the Administrator authority to wave the downpayment requirement in some instances, may affect this level of anticipated receipts.

If our estimates prove to be accurate, we should not experience a shortfall. At this time, they are the best available estimates.

QUESTION 91(c): The VA requested and received a supplemental LGRF appropriation of $100 million in July 1987. Why wasn't at least some part of the FY 1988 deficiency anticipated -- and appropriations for it requested -- at that time?

ANSWER 91(c): It would not have been appropriate to submit a 1988 budget amendment with the 1987 request, since the Agency was evaluating its options to increase collections. At that time the Agency could not have forseen obligations continuing at a high level which would require an additional $526.6 million. Only after analyzing new data that was being received after the passage of the FY 1988 appropriation and realizing that our increased efforts in property and loan sales would not be adequate to fund all program operations, was a deficiency estimate formulated.

QUESTION 92: According to the VA budget documents (page 2-4), FY 1989 vendee loans sales are estimated to be $780.7 million. What is the estimated face value of the loans which will be necessary in order to achieve that amount?

ANSWER 92: The face value of loans estimated to be sold in 1989 is $1,340,600,000. Current production loans will total $778.8 million. Accelerating the sale of older/lower interest rate loans will add another $561.8 million.

The VA budget documents (page 2-19) state that, as of September 30, 1987, 2972 VA-acquired foreclosed properties -- almost 14 percent of the total inventory of 21,771 such properties -- had been held for more than 12 months.

QUESTION 93(a): What special steps is the VA taking to dispose of these older properties?

ANSWER 93(a): VA has made substantial progress in reducing the number and percentage of the older properties over the last 3 fiscal years. Properties on-hand over 12 months, the properties which most need to be sold, are usually in this category because of extended adverse occupancy. These properties receive increased management attention and scrutiny.

END OF FY	NUMBER OF PROPERTIES ON-HAND 12 MONTHS	PERCENT OF INVENTORY
1984	6337	30.4%
1985	4514	25.7%
1986	4102	20.9%
1987	3391	15.6%
1988 *	3382	14.9%

* Through January 31, 1988.

These are the steps which are currently in place to sell these properties:

Performance Plan: Each regional office Director has the requirement to reduce the number of properties on-hand over 12 months by 20 percent and the number of properties over 18 months on-hand by at least 75 percent by the end of fiscal year 1988. These sales goal achievements have been included as a critical subelement in the performance plan of each station Director with Loan Guaranty responsibilities. We believe the inclusion of these goals in the performance plans of our line managers has significantly contributed to reducing the number of all of the oldest properties.

Increased Cash Discounts: VA recently increased the maximum discount allowable for cash offers to 20 percent off the list price on terms for selected properties.

System Reports: Station Directors are able to quickly identify unfavorable trends with weekly system generated reports which track the number of the oldest properties. In addition, the Property Management System (PMS) produces a special report which provides station management with the status of each property which is 12 months or older.

Reasonable Offers Below List Price: Stations are required to consider reasonable offers below list price on all properties listed three months or more. Some stations consider reasonable offers from the first day of listing.

Sales Bonus: Stations are authorized to pay sales bonuses, up to a maximum of $500, on all properties listed six months or more.

Updated Market Data From Local Real Estate Brokers: Management Brokers are required to provide updated property analysis every six months. This report is used to provide VA realty specialists with current market data when they evaluate the reasons why a property has not sold and before repricing the property.

Auctions: When VA's customary sales techniques do not draw an offer after reasonable market exposure, properties may be considered for auction if a particular station has a concentration of such properties.

QUESTION 93(b): In which geographic areas are these properties concentrated? (Please identify the regional offices concerned in each case.)

ANSWER 93(b): The budget documents (page 2-19, Volume I) indicate that a total of 3391 properties have been in the inventory for at least 12 months. A total of 76.1 percent of these properties are located in the following seven areas:

REGIONAL OFFICE	NUMBER OF PROPERTIES ON-HAND OVER 12 MONTHS	PERCENT OF NATIONAL TOTAL
Houston	1,408	41.5%
Chicago	366	10.8%
Denver	346	10.2%
Cleveland	168	4.9%
Indianapolis	110	3.2%
Los Angeles	94	2.8%
Seattle	88	2.6%

QUESTION 94(a): The VA budget documents (2-4) contain the following description of the Administration's proposed federal credit subsidy legislation as it relates to the VA: It "will identify the grant equivalent subsidy of Federal Credit programs" and will "require subsidy payments to a central revolving fund at Treasury prior to making a loan."

Please provide a breakdown by source of the rental and other revenues that the VA budget documents estimate (page 2-6) will be received in FYs 1988 and 1989.

ANSWER 94(a): Prior to discussing the specific budget amounts for 1988 and 1989, it is important to note what comprises the "Rental and other revenue" function. In 1987, the actual amount for this line item was $45.8 million. This total was primarily comprised of the establishment of losses for foreclosed vendee loans (this will be discussed in further detail below) offset by some collections for late charges on vendee and mortgage loans.

The "loss on a foreclosed vendee loan" is recorded when the following occurs:

- o Vendee is foreclosed upon
- o Liquidation appraisal is obtained
- o If the liquidation appraisal is below the loan amount, the difference represents a loss. This loss and the creation of a debt is charged to the owner of the property (this is a vendee loan - so the owner may not be a veteran).

- o Associated operating expenses and property management costs are also included in this item.
- o Based upon historical trends, ninety percent of the loss is uncollectable. NOTE: This is not a write-off and does not mean that debt collection activities cease.

In 1987, debits related to these losses totalled $54 million. These debits were offset by collections for late charges on mortgage loans, GI and vendee loans as well as other similar collections.

Since the costs associated with this account is a function of the number of claims processed and the level of vendee loans made in prior years, the 1988 and 1989 estimates reflect the anticipated activities in these areas. It is anticipated that claims processed will increase in 1988 and again in 1989. The "Rental and other revenue" amount for 1989 reflects these relationships.

QUESTION 94(b): Why are such revenues expected to decrease by approximately one-third from FY 1988 to FY 1989?

ANSWER 94(b): The level of reserves is predicated on the value of vendee (direct) loans established, which are estimated to increase in 1988 and decline in 1989.

QUESTION 95: The Gold Star Wives, in their written statement submitted for the Committee's hearing on the FY 1989 budget, propose that the funds appropriated for the 1988 COLA be distributed in equal amounts to each DIC recipient, thus, paying each a "one-time flat rate increase". What are the VA's views on this proposal?

ANSWER 95: The application of the same percentage of COLA increase for all DIC rates has over the years resulted in an ever-widening disparity between the lowest and highest rates. We have not formally or informally reviewed the proposal of the Gold Star Wives. Their proposal will be examined and agency comments provided when we are requested to do so.

Question: 96. Please described how the $46,862,000 payroll decrease in the Medical Care account due to two fewer workdays in 1989 was computed.

Answer: The workday resource reduction was based on a 1988 estimate of total personal service dollars developed prior to the enacted 1988 appropriation. The $46,862,000 decrease in payroll for two less workdays was computed by dividing the estimated 1988 personal service dollars by 262, the number of workdays in 1988. The cost per day $23,431,000 multiplied by 2 workdays equals $46,862,000, the Medical Care payroll adjustment.

Question: 97. The June 1987 report of the Department of Medicine and Surgery's Hawaii Veterans' Health Care Task Force recommended as the long-term (FY 1993-94) option that the VA build a new, 165-bed medical school affiliated VAMC in Honolulu. This would be a secondary facility obtaining tertiary support from Tripler Army Medical Center or the private sector. In addition, the Senate Committee on Veterans' Affairs, in its July 31, 1987, FY 1988, United States Code, approving major medical facility construction projects, approved $6 million in Advanced Planning Funds for the proposed medical center in Honolulu.

(a) What analyses have you conducted with respect to potential sites of land for this proposed VAMC?

Answer: No specific site analyses have been performed with respect to potential sites for a free-standing 165-bed new hospital in Hawaii.

Question: (b) What are the results of these analyses?

Answer: No analyses of specific sites have been conducted.

Question: (c) What amount would be necessary to proceed with site acquisition and planning and design work for the proposed Honolulu VAMC in FY 1989?

Answer: The following amount has been identified for the services noted:

	Amount	FY
Advance Planning Fund (Environmental Impact Statement Consultant)	S 200,000	1989

Question: 98. Dr. Gronvall, in his February 11, 1988, letter responding to questions from Senator Matsunaga and me in follow-up to the Committee's April 14, 1987, hearing in Hawaii, noted that the agency has adopted and begun implementing the short- and intermediate-range options recommended by the Hawaii Veterans' Health Care Task Force.

98(a). What are the costs associated with implementing each of these recommendations in FY 1988, in FY 1989, and beyond?

Answer: The costs associated with implementing the short and intermediate-range recommendations from the Hawaii Implementation Plan are as follows:

	ANNUAL	CUMULATIVE
FY 1988	$1,534,238	$1.534.238
FY 1989	3,028,452	4,562,690
FY 1990	1,746,226	6,308,916
FY 1991	177,405	6,486,321
FY 1992	192,355	6,678,676
FY 1993	192,355	6,871,031
FY 1994	142,715	7,013,746

The FY 1987 cost for all VA medical care programs in Hawaii ($14,063,161) is the base for the above increases.

Question: 98(b)(i). Are these costs provided for in the FY 1989 VA budget?

98(b)(ii). If so, please identify the specific items in which they are included and the amounts included.

Answer: In FY 88 12 FTEE were authorized for neighbor island readjustment counseling services. No other resources are requested in the FY 1989 VA budget.

Question: 99(a). What level of funding and FTEE did the VA originally request from OMB for the following accounts:

(i) Medical Care;
(ii) Medical and Prosthetic Research;
(iii) MAMOE;
(iv) Major Construction; and
(v) Minor Construction?

99(b). Please list the amount of the OMB disallowance, if any, made with respect to each of those requests.

Answer: The chart below provides, by appropriation, a comparison of the VA request to OMB and the OMB disallowance:

Appropriation	VA Request	OMB Disallowance
Medical Care:		
BA ($000)	$10,556,638	$-229,092
FTEE	194,442	- 2,084
Med. & Prosthetic Research:		
BA ($000)	$ 216,115	$- 11,874
FTEE	4,687	- 280
MAMOE:		
BA ($000)	$ 51,794	$- 3,885
FTEE	625	- 30
Major Construction:		
BA ($000)	$ 632,065	$-264,310
FTEE		
Minor Construction:		
BA ($000)	$ 148,839	$- 24,958
FTEE	734	- 7

Question: 99(c). Please describe the programmatic and budgetary adjustments made as a result of each of those disallowances.

Answers: Medical Care - Over 80 percent of the dollar amount of the net reduction relates to a more accurate estimate of expected retirement costs. The remainder is composed of lower costs for capital investments and numerous smaller offsetting adjustments.

Medical and Prosthetic Research - Over 77 percent of the dollar amount of the net reduction relates to a more accurate estimate of expected retirement costs. The remainder is composed of lower-than costs. The remainder is composed of lower-than-requested additional funding for medical research and a correction to reduce funding work that was halted by the Centers Disease Control (CDC).

MAMOE - Over 77 percent of the reduction relates to the decrease in the base that resulted from congressional action on the 1988 request. The remainder consists of not funding proposed ADP and Quality Assurance initiatives.

Major Construction - The Major Construction appropriation was adjusted by eliminating discretionary and lower priority requests, including some for which funding could be deferred without effects.

Minor Construction - Reductions to the Minor Construction appropriation were made in various categories. In General Administration, reductions were partially due to lower-than-expected FERS estimates and approving new initiatives at lower than requested levels. FTEE will be maintained at approximately the 1988 level.

QUESTION 100: The October 1987 report of the General Accounting Office on "ADP Systems: Department of Veterans' Benefits (DVB) Modernization Program" (GAO/MTEC 88-3) concluded that the "VA has not completed the planning and analysis necessary to demonstrate how one of the major benefits of modernization -- improved productivity -- would be achieved." In addition, GAO expressed concern that, if anticipated productivity improvements do not materialize, the DVB's proposed elimination of 1,100 staff positions could impair service to veterans. Please explain your bases for proposing the reduction in 492 FTEE for FY 1989 in light of the GAO conclusions.

ANSWER 100: Of the 492 FTEE reduction in 1989, 54 FTEE are for modernization savings. These savings are associated with the Loan Production System and Office Automation. The rest are associated with declines in workload and productivity improvements.

Question: 101. The FY 1989 budget documents (page 5-10) contain the assertion that the 1989 medical care account request is reduced by 135 FTEE due to savings associated with the Decentralized Hospital Computer Program. Please explain how this number was calculated and the data you have to support this reduction?

Answer: In preparing the 1988 Budget, VA agreed that a 10 percent rate of return would be expected for additional investments in DHCP equipment and the associated increased maintenance costs. The 135 FTE identified in the 1989 Budget is the increase from 1988 to 1989 in FTE expected to be saved relative to the base year of 1987, in accordance with a 10 percent return on budget investments in DHCP and the associated increased maintenance. The expectation is that as clerical and administrative personnel have better computer tools, time will be saved which can be translated into FTE savings.

Question: 102. The seismic corrections and bed addition project (MIS number 640-042) for the Palo Alto VAMC was approved for preliminary plans in the FY 1985 Advanced Planning Fund and an architect/engineering (A/E) firm was selected to develop the plans. However, the contract was not awarded. The preliminary plans were subsequently rescheduled for FY 1987, but once again no contract was awarded.

102(a). It is my understanding that in 1986 questions were raised by VA central office on bed levels and space requirements data for this project and, it is my further understanding, that such data were provided by the VAMC working in cooperation with MEDIPP planners. However, the January 14, 1988, Construction Management Information System (CMIS) Project Status Report for this project states that "DM&S has not provided bed requirements".

102(a)(i). Is the CMIS report accurate?

Answer: The CMIS report accurately states that DM&S has not provided bed requirements for VAMC Palo Alto.

Question: 102(a)(ii). Please explain the reason for the extraordinary delay in moving ahead with this project.

Answer: Planning bed levels for VAMC Palo Alto are still under consideration by the Department of Medicine and Surgery. Hospital bed levels are determined utilizing the Hospital Sizing Model. Application of the model for VAMC Palo Alto resulted in fewer hospital beds than the level previously planned for by the VAMC. Justification for additional beds over model results must be based on quantitative justification. Several technical issues have been raised concerning the validity of the quantitative documentation provided in support of increased beds at Palo Alto. In order to resolve this matter, the Department has established a committee with representation of senior management, planning, and clinical officials. The committee, which is chaired by the Associate Deputy Chief Medical Director will consider the merits and validity of the documentation provided on Palo Alto and will make a final recommendation to the Chief Medical Director of a quantifiably justified bed level for Palo Alto.

Question: 102. (b) In light of the proximity of the Palo Alto VAMC to the San Andreas earthquake fault and the importance of the seismic corrections for the safety of patients, employees, and visitors, when do you anticipate that the contract for preliminary plans will be awarded and what is your timetable for completion of this project?

Answer: Bed projections must be completed before an exact schedule is developed. However, based on general time frames to complete work required on this project, we might anticipate a preliminary plan contract award in FY 1989. The earliest this project might be available to be considered for construction funding would be FY 1991.

Question: 102. (c) In the joint explanatory statement accompanying the FY 1988 Continuing Resolution enacted as Public Law 100-202 on December 22, 1987, (H. Rept. No. 100-498, page 165), the conferees stated that they concurred with language in the Senate Appropriations Committee's October 6, 1987, report on the proposed HUD-Independent Agencies Appropriations Act, FY 1988 (S. Rept. No. 100-192, page 98), regarding the use of Advance Planning Fund dollars for Facility Development Plans (FDP) in which the Senate Committee had directed

> "the VA not to enter into any further contracts (or proceed with in-house development of any FDPs) until it has received and transmitted to the Veterans' Affairs Committees the results of an independent evaluation which validates the FDP format and development process, specifically (1) the overall efficiency and adequacy of the FDP format and development through stage 1, and (2) the appropriateness of proceeding with additional FDPs through stage 1 before all three phases of the pilot FDPs have been completed, are independently and fully evaluated, and have been validated."

Also, paragraph 8 of the Associate Deputy Administrator for Logistics' October 23, 1987, memorandum to the Administrator concluded that "a more rigorous and timely evaluation process is necessary before expending major resources on stage one of the first 40 nonpilot FDPs in FY 1988."

Question 102. (i) The Palo Alto VAMC is included on the list of the first 40 VAMCs to prepare (non-pilot) FDPs in FY 1988. What, if any, relationship is there between the evaluation of FDPs and the delay in awarding an A/E contract to develop preliminary plans for this project?

Answer: There is no relationship between the evaluation of FDPs and the delay in awarding an A/E contract to develop preliminary plans for this project. Further project development activities have been held in abeyance pending approval of bed levels. However, it should be noted that neither the project nor the FDP can proceed until the bed levels are approved.

Question: 102. (ii) Was this project on the preliminary list of projects scheduled to receive APF funds in FY 1988?

Answer: It was anticipated that a preliminary plan award (using APF funds) would be made in FY 1988. However, as noted above, we might anticipate a contract award in FY 1989.

QUESTION : 103. In your August 28, 1987, letter to me, you stated that there are no planned changes to the projects at Martinez VAMC to correct seismic deficiencies and relocate supply, processing, and distribution and expand ambulatory care projects. In addition, you stated that you had initiated the selection process for A/E services to develop preliminary plans with contract award anticipated for March 1988.

Please state when you now expect to award the contract and provide the current timetable for completion of this project.

ANSWER: A contract is scheduled for award in September 1988. The current project schedule is as follows:

A/E Selection	01-1988 Actual
Preliminary Plan Contract Award	09-1988
Complete Preliminary Plans	07-1989
Working Drawing Contract Award	02-1990
Complete Working Drawings	12-1990
Construction Contract Award	04-1991
Estimated Construction Completion	04-1993

The delay in the preliminary plan contract award stems from difficulty in determining the appropriate program workload figures. This information was furnished to the Office of Facilities on February 8, 1988. The data package based on official work loads was sent to the Medical Center on February 29, 1988. This data package will serve as the basis for the space requirements for the project.

The delay between Preliminary Plan completion and Working Drawing Contract Award is due to the availability of the "design fund". The letter to Congress that identifies the "design fund" projects cannot be sent until the President presents the budget to Congress. We then allow 30 days for Congressional notification before proceeding with the award.

QUESTION 104(a),(b),(c): The Paralyzed Veterans of America (on pages 62-64 of its February 24, 1988, legislative presentation to the Committees on Veterans' Affairs) has expressed concerns regarding "the low limits of coverage" currently available under National Service Life Insurance RH policies, which are available to certain service-connected disabled veterans. The Paralyzed Veterans of America recommends consideration of one of the following changes: (1) Raising the NSLI RH policy maximum coverage limits from $10,000 to $50,000; (2) Allowing eligible veterans the opportunity to purchase additional amounts of insurance, possibly by establishing a one-year enrollment period, during which eligible veterans would be allowed to purchase, at their own expense, additional "RH" insurance in increments of $10,000, up to $90,000 of additional insurance.

(a) Please respond to this portion of the PVA's presentation and give your views on the PVA's recommendations.

(b) Are there other approaches to increasing the maximum coverage limits of the NSLI-RH policies that you would support? If so, please describe any such approaches and your reasons for supporting them.

(c) Please provide estimates (together with the underlying analysis) of the cost of legislation carrying out each of the PVA's recommendations during the first 5 fiscal years following enactment (assuming an October 1, 1988, effective date).

ANSWER 104(a),(b),(c): Service Disabled Veterans Insurance (SDVI), whose policies are prefixed "RH", is available to veterans who have a service-connected disability but are otherwise insurable and is issued regardless of the severity of the disability. Since SDVI insures medically substandard lives at standard premium rates, the program is not self-supporting and depends heavily on Congressional subsidies (approximately 40 percent of the program is subsidized). To date, Congress has appropriated over $115 million and in FY 88, $10 million must be appropriated to cover losses -- the difference between premium income and the amount necessary to pay claims on policies.

The program operates on a pay-as-you-go basis and there are no reserves to cover the guaranteed values of the policies issued. Hence, the program has an unfunded liability of $614 million, which represents the amount the government will have to pay over the life of the program for the current policies in force.

Increasing the maximum coverage from $10,000 to $50,000, or otherwise in increments of $10,000, simply would raise the subsidy cost proportionately. Five year subsidy costs are projected as follows (in millions):

Subsidy Cost to Federal Government

	MAXIMUM COVERAGE		
	$10,000	$50,000	$100,000
FY 89	$ 6.37 M	$31.85 M	$ 63.7 M
FY 90	11.75	58.75	117.5
FY 91	13.36	66.8	133.6
FY 92	14.27	71.35	142.7
FY 93	15.1	75.7	151.0

The above cost estimates assume that the waiver of premium provision will be applicable to the increased coverage. The administrative costs associated with issuing the increased coverage or new policies are not included above. These administrative costs will depend upon eligibility and underwriting requirements. To operate a self-supporting program, a dramatic increase in premiums would be required to cover the mortality costs of this group and presumably we would not be able to include a waiver of premium provision.

WRITTEN FOLLOWUP QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

In response to my prehearing question 30(a), you stated, "There is no question that timeliness of service to veterans, particularly in the issuing of certificates of reasonable value deteriorated in FY 1986 and early FY 1987."

According to the Independent Budget, even though the VA's quality and timeliness standards have been lowered since the late 1970's -- in some program areas, to half of the earlier criteria -- DVB still is not meeting its standards. In FY 1987, for example, the Independent Budget reports that only 16 percent of original compensation claims were completed in two months, although the lowered standards set goals of 30 percent completion.

QUESTION 105(a): Specifically, regarding the service-connected rehabilitation program under chapter 31, what is your timeliness standard for initiating an evaluation of a veteran who applies for chapter 31 benefits?

ANSWER 105(a): The timeliness goal or standard is 60 days. This is the time measured from the date of receipt of an application for vocational rehabilitation until the veteran is seen by a counseling psychologist to commence the evaluation and planning process. In certain instances, delay results from the lack of a prior determination of service connected disability, a requisite for referral to the Vocational Rehabilitation and Counseling program. This determination requires a rating decision which, in turn, requires locating service medical records, examinations, etc. Therefore, there will always be some cases that will exceed the 60 days goal. The DVB and DM&S data exchange short term initiative for DVB modernization should reduce the time delay necessary to confirm a service-connected disability.

QUESTION 105(b): At the five Regional Offices with the longest delays in initiating these evaluations, by what margins are you failing to meet that standard?

ANSWER 105(b): The five stations with the longest delays range from a high of 151 days to 138 days for the lowest of the five.

QUESTION 105(c): Under the FY 1989 budget, will you have the resources to meet this timeliness standard at those Regional Offices?

ANSWER 105(c): There are resources and management initiatives that can bring about substantial improvement at these offices, however since this is a cumulative average over a fiscal year period, it is doubtful that these stations will be brought under the goal prior to the end of FY 1989. One such initiative is to ensure that a veteran is seen for an initial appointment at an earlier date, however this must be done in such a manner that quality of service in the program of services does not suffer.

QUESTION 105(d): Are there other Regional Offices at which this or other chapter 31 timeliness standards currently are not being met by a substantial margin?

ANSWER 105(d): There are 28 offices with times in excess of 83 days (the national median). The measures referred to in question (c) will also be used to improve timeliness.

QUESTION 105(e): Can you demonstrate how the FY 1989 budget would improve or exacerbate this situation at these Regional Offices?

ANSWER 105(e): C&P original claims are expected to decline 2.6 percent between FY 1987 and 1989. In addition, as adjudicators gain more experience, timeliness should continue to improve.

QUESTION 105(f): In FY 1988, are all DVB components currently meeting the VA's standards for quality and timeliness? Please provide details for the record.

ANSWER 105(f): Data reported through the VA Automated Management Information System (AMIS) is the source used for information pertaining to program quality and timeliness.

Quality, as measured by error rates, will continue to be emphasized with no expected deterioration from the "met" standards.

QUESTION 106: The Mortgage Bankers Association recommends that the VA be staffed at a level adequate to enable the VA to settle lenders' claims within 30 days of the VA's acquiring title to the foreclosed property. How many FTEE -- and at what cost -- would have to be added to the VA's proposed budget in order to accomplish that?

ANSWER 106: For the 12-month period ending in December 1986 the average time taken by VA offices to process property acquisition payments was 37 days from receipt of acceptable title to dispatch of the voucher schedule to Treasury for payment. We believe with additional effort this figure could be reduced to 30 days without an overall staffing increase at the regional offices.

In response to prehearing question 32, you provided data which indicates that, from FY 1983 to FY 1987, the number of defaults which were cured declined by more than eight percent. In FY 1987, that decline resulted in over 47,000 veterans losing their homes. In fact, a 1987 GAO investigation found that the VA does not consistently make loan counseling available to veterans and that the "extent of loan servicing varies widely among VA's regional offices", despite the GAO's finding that the VA has been very successful in preventing foreclosures when it does provide adequate loan servicing. The GAO cited inadequate staffing as a barrier to more effective financial counseling.

QUESTION 107(a): If you had the additional FTEE available in FY 1989, could they be used in a productive and cost-effective manner to provide an increased level of financial counseling to veterans in default on VA-guaranteed loans?

ANSWER 107(a): The existing staffing is adequate to provide needed financial counseling.

QUESTION 107(b): What steps, other than sending a computer-generated letter, will the VA be taking to implement section 1816(a)(4) of title 38, enacted in December in the new home loan bill, which requires the VA to provide certain financial information and, to the extent feasible, financial counseling?

ANSWER 107(b): Our field station personnel will continue their efforts to contact delinquent veteran-borrowers by telephone, letter and mailgram in order to provide information on alternatives to and consequences of foreclosures. We expect that our revised computer-generated letter will result in an increase in the number of veterans calling or visiting our regional offices to obtain further information and financial counseling.

Question: 108. I have been deeply concerned about the cost of implementing a random mandatory drug testing program and the diversion of scarce patient-care dollars in order to fund it. According to your response to my prehearing question 59, the VA estimates that the total cost of the drug testing program in FY 1989 will be $480,000. Frankly, I find that estimate to be completely unrealistic. That amounts to about $24 a test, which is $12 less than the VA previously estimated each test would cost -- and I believed that estimate was too low also. I have a series of questions on this matter:

(a) First, what accounts for the 33-percent reduction per test?

Answer: The cost estimate for 1989 is based on $24 per test. In 1988, the Agency has reached agreement with the Navy to do the testing for $15 per sample with an additional $4 estimated for collection supplies and mailing. The cost for testing by Navy is only estimated at $20 per sample in 1989; it may not be that much. The total of $24 contains the same $4 for collection supplies and mailing.

The reduction from previous estimates relates to the elimination of the staff costs for the collection and medical review as prescribed by OMB guidelines. When the duties are going to require less than 25 percent of an employee's time it is not included. In fact for most employees it will be less than 5 percent of their time. For example, the estimated specimen collection time would not equate to more than 50 total technician hours per year at any medical center.

However, other costs for supervisor training, employee education, and quality control in the testing process are estimated to be ad additional $183,000 in 1989.

Question: (b) Do those estimates account for training personnel to administer and especially to monitor the taking of tests in order to ensure a secure chain of custody?

Answer: No. Detailed guidelines for specimen collection and chain of custody controls are being developed so that qualified laboratory personnel will need minimal special training to perform this function.

Question: (c) Do these estimates take into account the cost of medical review of positive test results and other administrative or legal activities?

Answer: No. We anticipate there will be limited positive test results. Based on available information from other organizations doing testing, we are estimating less than 4 percent positive results. Therefore, we expect that the costs of medical review, administrative, and legal functions can be absorbed within the existing workload of the staff that will be involved with these responsibilities.

Question: (d) What is the current timetable for implementing the program?

Answer: We are awaiting certification of the VA plan by Department of Health and Human Services. The VA program will be implemented not earlier than 60 days after this certification. Implementation may occur late in the third quarter, FY 1988.

Question: (e) Will you be conducting pre-employment drug testing, as you had indicated previously you would?

(i) (If so) How much will that cost, total and per test?

Answer: Although the VA plan will provide that all hires will be subject to testing, a random procedure will result in about 4,000 being tested. The costs for collection supplies and mailing ($4 per test) and for laboratory analyses ($20 per test) are estimated to total $96,000. The plan of 20,000 tests in FY 1989 included these pre-employment tests and the estimates provided consolidated these and employee tests.

Question: (f). What was the VA request to OMB -- in dollars and FTEEs -- for implementing and carrying out the VA's drug testing program in total?

Answer: No request was submitted to OMB. We plan to absorb costs within the existing request for operating funds.

Question: (g) What was it specifically for each of the following:

- (i) test materials?
- (ii) navy lab costs?
- (iii) training of personnel?
- (iv) medical review?
- (v) additional FTEE at field stations and VA Central Office?
- (vi) expanded employer assistance programs?

Answer: No specific requests were submitted for any of these.

Question: (h) Based on feedback from the field thus far, do you expect random drug testing of VA health-care professionals to present any recruitment or retention problems?

Answer: We have no reliable information on the effect of the VA Drug-Free Workplace Program on recruitment and retention. Limited information on programs in other Federal agencies and other organizations has not reported any major problems, but there has not been any widespread use of drug testing, to date, by health care providers. The VA will continue to assess recruitment and retention situation after the drug-free workplace program is implemented.

Question: 109. Your responses to my pre-hearing questions 6(b) and 6(c), regarding the amount of nursing care needed by and actually provided to VA patients indicate that, per day, VA intensive care patients are provided 2.33 nursing-care-hours less than what they need; intermediate-care and medical patients are provided 0.18 hours less than they need; surgical patients, 0.12 hours less than needed; and nursing-home-care patients, 0.43 hours less. In view of the fact the VA patients are already receiving less nursing care than the VA's own figures say is needed, what is the justification for making adjustments which will reduce staffing of the VA's current level of operations by 3,638 FTEE?

Answer: As noted in our response to questions 6(b) and 6(c), the nurse staffing standards are only guidelines to assist facility managers in staffing bed sections. The justification for making adjustments that reduce staffing is that the productivity of the staff is expected to continue.

Question: 110. In response to my pre-hearing question 65(a) the VA responded that "a reduction in budgeted resources associated with a productivity increase assumes improved, not inferior workload production."

110(a). What studies have been conducted or does the VA plan to conduct to test this assumption?

Answer: The VA has not conducted and has no plans to conduct any formal studies to test this assumption.

Question: 110(a)(i). (If none) So the VA has based a decision to decrease staffing of current operations by 3,628 FTEE's on unproved and perhaps unfounded assumptions?

110(a)(ii). (If yes) Please provide copies of the studies.

Answer: Increased productivity is an expectation for all government agencies. Based on recent experience and the investments made in medical and information technology, a productivity increase of less than 1.9 percent does not seem unreasonable, especially considering that the system operated with fewer staff during the first half of fiscal year 1987 than it does now and yet all veterans who applied for and needed care were served.

Question: 111. It is my understanding that, with the advent of the prospective payment system, health-care workers in the private sector describe "sicker and quicker" hospital patients, meaning that inpatients are on average more severely ill and discharged in a shorter period of time than was previously the case. It is also my understanding that with the implementation of your resource allocation methodology, the same phenomenon is being experienced in the VA.

Do the staffing-ratio adjustments and productivity-improvement measures proposed for DM&S take into account severity of illness and the resources necessary to continue to achieve shorter lengths of stay?

Answer: No resource adjustments for severity of illness and continuation of the trend toward shorter lengths of stay have been proposed. We do project that lengths of stay will continue to decline in FY 1989.

Question: 112. In response to my pre-hearing question 99 (b), the VA stated that 80 percent of the $229 million OMB-disallowance for the medical care account related "to a more accurate estimate of expected retirement costs." However, based on the $33,338 average payroll cost per FTEE used in the VA budget, the OMB disallowance of 2,084 FTEE of the VA's request alone accounts for $69.5 million or 30 percent of the total disallowance, and obviously employment of those 2,084 FTEE would have entailed costs over and above payroll costs.

112(a). How does the VA square this analysis with the assertion that only 20 percent was due to factors other than retirement costs.

Answer: The $229 million disallowance is a net total of all adjustments that lowered the total $10.6 billion request to OMB. The reestimate of retirement costs in 1988 associated with the lowered CSRS to FERS switching was a decrease of $190 million or 83 percent of the total reduction. Numerous smaller changes in both positive and negative directions, including pay raise adjustments account for the remainder.

Question: 112(b). What was the actual dollar amount of the OMB disallowance attributable to retirement costs for the medical care, research, and MAMOE accounts?

Answer: The disallowance attributable to retirement costs by appropriation follows:

(Dollars in thousands)

	1988	1989
Medical care.......	$-179,904	$+21,755
Research...........	- 10,198	- 681
MAMOE..............	...	- 106

Question: 113. According to the Independent Budget prepared by veterans organizations, the FY 1989 VA budget falls at least $370 million short of providing the minimum necessary to maintain current health-care services.

113(a). What is the VA's current-services estimate for the medical-care account?

Answer: The 1989 current services estimate for Medical Care is $10,322,050,000.

Question: 114. In response to my pre-hearing question 7, the VA identified 27 hospital services -- including Nursing Service -- which utilized a workload measurement system for staffing purposes. In response to my pre-hearing question 8(b), the VA indicated that these time values for Nursing Service were based upon industrial engineering standards.

114(a). Are the values for the 26 other listed services also based upon industrial engineering standards?

114(a)(i). (If no) How were they derived?

Answer: All of the staffing guidelines were developed using accepted industrial techniques. Activities within Services that lend themselves to work sampling or time study were so measured. Manpower requirements for other activities were determined by operational audits or statistical analyses.

Question: 114(b). Are the standards for hospital services listed in response to my pre-hearing question 7 used to arrive at the FTEE in the budget for the medical care account?

114(b)(i). (If yes) How many FTEE would these figures suggest the VA should plan for and include in the Budget request?

114(b)(ii). (If no) If figures are available which suggest providing staffing levels based on workload, why aren't these figures taken into consideration in the budget process?

Answer: No. Staffing guidelines are used at the discretion of individual medical centers as a management tool and have not been used for budget purposes.

Question: 115. In response to pre-hearing question (17(a), the VA provided a list of 51 medical centers -- ranging in size from 78 to 1,221 beds -- which had not yet been converted to a unit-dose medication distribution system. Earlier, in a December 8, 1987, letter in response to my inquiry regarding implementation of the unit-dose system, the VA referred to its plans to convert approximately 480 beds per year for the next 10 years. This has been a keen interest of mine for many years.

115(a). Did the VA's budget request to OMB for FY 1989 include a request for funds to implement the conversion of 480 beds in FY 1989?

115(a)(i). (If yes) How much was requested and is that amount included in the President's budget?

115(a)(ii) (If no) Why weren't those funds requested?

Answer: Higher priorities within the Agency precluded a request for this line item.

Question: 115(b). Excluding nursing home beds, what would be the cost of converting all medical center beds to the unit-dose system in FY 1989?

Answer: The cost to convert the remaining beds to unit-dose is $22 million.

Question: 116. In response to my pre-hearing question 9(e), the VA stated that expenditures for DM&S special rates totalled $58.8 million from December 4, 1986, to September 30, 1987, and $22 million from October 1, 1987, to February 18, 1988.

116(a). To what extent have field facilities been required to absorb these costs?

Answer: Of the $58.8 million cost of special rates approved in FY 1987 and paid in FY 1988, $10.6 million was absorbed by the field facilities. Of the $22 million approved so far in FY 88, field facilities will absorb approximately $2.5 million this year.

Question: 116(b). Did the budget request which the VA originally submitted to OMB include FY 1989 funds for field facilities to cover special rate requests during the balance of FY 1988 and in FY 1989?

Answer: No.

Question: 116(b)(i). (If no) Why not?

116(b)(ii). (If yes) How much was requested and are those funds in the President's budget?

Answer: The FY 1989 budget request to OMB included $40 million to pay for the major portion of the FY 1989 annualized cost of the special pay rate authorizations granted as of September 17, 1987. Resources to pay for the FY 1989 cost of authorizations granted after this date were to come from realignments from within the appropriation. Realignments may involve having the field facilities absorb part of the costs of these more recent authorizations.

Question: 117. In response to pre-hearing questions 11 (a) and (b), regarding implementation of the recommendations in the preliminary report of the task force on recruitment and retention of non-physician, health care workers, the VA indicated that action has been taken on several issues and preliminary discussions are occurring on others.

117(a.) Aside from the tuition reimbursement and the schoarship programs, did the VA's original budget request for FY 1989 budget include funding to implement any of these recommendations?

117(a)(i). (If no) Why were additional funds not requested?

117(a)(ii). (If yes) How much was requested in dollars and FTEE and are those funds included in the president's budget?

117(a)(ii)(A). (If no) What program funds were requested and denied?

117(a)(ii)(B). (If yes) Does the VA plan to carry out any other recommendations in FY 1989 and how will their implementation be funded?

Answer: Many of the 24 recommendations contained in the preliminary report do not involve matters that specifically require additional funding. Many of the recommendations will be carried out during FY 1989. These will be accomplished with existing resources. They involve such things as issuing classification guidance, studying nurse outside professional activities, seeking delegations of authorities from OPM, and developing protocols for the conduct/expansion of recommendations such as a loan repayment program, and the development of a specialized data base for staffing information. In the cases where funding may be necessary, the recommendations require (and are currently undergoing) further study and cost/benefit analyses in order to accurately identify associated costs. The FY 1989 budget request includes funding for the recommendation dealing with expanded ADP support to the wards and clinics (an additional $30.8 million), and the recommendations addressing continuing education needs (in addition to tuition support).

Question: 118(a). Regarding research, since the overall number of FTEEs in the special emphasis research program would increase by only 35 in the VA budget and 60 FTEEs are being added for AIDS research, what "special emphasis" areas of research will be cut?

Answer: In the special emphasis area of Medical Research Service there are a number of programs (dollars and FTEE) that began as Special Research Initiatives which will obtain continued support through the Investigator-initiated Merit Review Program. This administrative change in the method of tracking does not imply any reduction in the number of special emphasis research projects which Medical Research Service is willing to support. As in the Investigator-initiated program there are several areas planned as Special Research Initiatives in high technology areas which require significant capital outlay for initial equipment which will not require FTEE during FY 1989.

Question: 118(b). Although I am pleased that the VA has made AIDS research a high priority, I am very concerned about the tremendous decrease of 122 FTEEs in the VA's investigator-initiated medical research program and the overall decrease of 110 research FTEEs. From what specific areas of research will this reduction of FTEEs come?

Answer: As presented on page 7-12 of the FY 1989 budget request, Medical Research Service plans to support a large number of high technology research proposals in the areas of Acquired Immune Deficiency Syndrome (AIDS), Magnetoencephalography (MEG) and Magnetic Resonance Imaging (MRI). Studies of this type will require significant expenditures for initial equipment, supplies and contracts. In addition the funds that support the DoD portion of all approved DoD/VA collaborative research programs will be transferred to the cooperating DoD facility via an interagency agreement. Such interagency transfers provide for reimbursement of dollars but not FTEE. Therefore, the increased dollars will be identified primarily for non-personnel expenditures thus reducing total FTEE needs.

Question: 119. As a result of the Anti-Drug Abuse Act (Public Law 99-570), funding for the VA's contract drug and alcohol abuse program was increased by about $10 million in FY 1987.

119(a). How many more veterans were treated as a result of that funding as compared to FY 1986?

Answer: Of the $10.4 million appropriated, approximately $4.8 million was spent in augmenting VA operated outpatient programs, $2.6 million was spent in the contract program, and approximately $3.0 million was not spent. Approximately 4,400 veterans were treated in FY 86, and approximately 6,500 were treated in FY 87 in the contract drug and alcohol abuse treatment program, which was an increase of 2,100.

Question: 119(b). By how much was that program reduced in fiscal year 1988 and how has that reduction been implemented?

Answer: The program has been reduced to the $5.4 million authorized in the existing legislation. This reduction has been across the board. Each program's allocation is distributed on a quarterly basis with a decreasing portion available each quarter.

Question: 119(c). What has been the resultant decrease in the numbers of veterans treated in the program?

Answer: We have no hard data at this time relating to the actual numbers of veterans currently being treated.

Question: 119(d)(i). Approximately, how many veterans are on waiting lists under the VA's community-based contract drug and alcohol program and what is the average length of time a veteran remains on the waiting list before being placed?

Answer: We have no data on waiting lists under the VA's community-based contract drug and alcohol program.

Question: 119(d)(ii). How long do veterans remain on the five longest waiting lists with the longest waiting times?

Answer: See response to 119(d)(i).

QUESTION 120(a): What FY 1989 budgetary impact is expected to result from an estimated 90,000 World War II Merchant Marines gaining potential VA benefits and health-care eligibility as the result of the Secretary of the Air Force's January 19, 1988, determination that their service constituted military service?

ANSWER 120(a): In FY 1989, it is anticipated that 25% of eligible World War II Merchant Marines will seek VA medical care at a cost of $27.1 million.

It is not expected that the volume of claims by Merchant Marines will be beyond the management capability of the Department of Veterans Benefits. Of the Merchant Marines with potential eligibility for benefits through the Department of Veterans Benefits, it is anticipated that approximately 8,300 will be entitled to VA Compensation at a cost of $32 million. We also anticipate 2,900 having entitlement to nonservice-connected disability pension at the cost of $14 million. We expect that another 2,700 survivors will be eligible for VA benefits costing $12 million.

QUESTION 120(b): A recent newspaper article stated that the St. Petersburg, Florida, VA Regional Office received 1200 phone inquiries regarding Merchant Marine benefits within a 2-week period. Is this report correct?

ANSWER 120(b): The first week following the announcement of the granting of VA benefits to Merchant Marines, the St. Petersburg Regional Office received approximately 1200 inquiries. However, in the following seven weeks, only 1300 inquiries were received for a total, to date, of 2500.

QUESTION 120(c): What are your plans for obtaining the resources in DM&S and DVB (including both funding and personnel) necessary to respond to the Merchant Marines' claims for benefits and applications for health care?

ANSWER 120(c): **It is estimated that the new veterans eligibility status for Merchant Marines will add roughly 17,500 new veterans to the VA health care rolls over the next five years. It is estimated that the five year cost of this care will be $105 million with an estimated cost of $27.1 million for 1989, which can be absorbed within existing resources.**

The impact of the Merchant Marines is not reflected in the entitlement program's budget estimates included in the 1989 President's Budget submission. It is hoped that the 1988 benefit costs can be funded within the current requested appropriation level. The impact of the Merchant Marines eligibility will be monitored closely and incorporated in future budget submissions.

QUESTION 121: In what geographical areas do you expect increased demand for health and claims services to occur?

ANSWER 121: We anticipate increased claims and demand for medical care in regional offices and medical facilities servicing port cities, on the presumption that many merchant mariners originated in these areas and continue to live there. We also anticipate increased claims from areas with large retirement populations such as Florida and Arizona. However, we have no data to back up our assumptions.

QUESTION 122: Would you please provide the Committee with a report every 3 months for the next year on the demand for benefits and services, broken down geographically, from former World War II Merchant Marines?

ANSWER 122: A request has been made by the Department of Veterans Benefits to make modifications to our master record and record location systems in order to specifically identify merchant marine claimants. The proposed installation date for these modifications is June 1988. At such time as programming is installed we will be able to inform the committee regarding the number of claimants receiving compensation and pension benefits based on Merchant Marine service.

The Department of Medicine and Surgery (DM&S) is in the process of developing a data collection instrument by which information will be collected on the amount of medical care provided to Merchant Marines. DM&S will share this information with you on a quarterly basis.

Question: 123. In response to pre-hearing questions 11.A and B, regarding implementation of the recommendations in the Preliminary Report of the Task Force on Recruitment and Retention of Non-Physician Health Care Workers, you indicated that action has been taken on several issues and preliminary discussions are occurring on others.

123(a). Aside from the tuition reimbursement and the scholarship programs, did the VA's original request from OMB funding to implement any of these recommendations and, if so, how much was requested and for which programs?

123(b). If additional funds were not requested please provide the justification for not doing so.

Answer: Many of the 24 recommendations contained in the preliminary report do not involve matters that specifically require additional funding. Many of the recommendations will be carried out during FY 1989. These will be accomplished with existing resources. They involve such things as issuing classification guidance, studying nurse outside professional activities, seeking delegations of authorities from OPM, and developing protocols for the conduct/expansion of recommendations such as a loan repayment program, and the development of a specialized data base for staffing information. In the cases where funding may be necessary, the recommendations require (and are currently undergoing) further study and cost/benefit analyses in order to accurately identify associated costs. The FY 1989 budget request includes funding for the recommendation dealing with expanded ADP support to the wards and clinics (an additional $30.8 million), and the recommendations addressing continuing education needs (in addition to tuition support).

Question: 124(a). The FY 1989 budget documents (page 6-17) indicate that 289 hospital beds will be converted to nursing home beds. Please provide a timetable for the conversions, a list of involved facilities, and the number of beds planned to be converted in each facility.

Answer: Chillicothe, OH: Plans are to convert 173 beds in FY 1989.

Dayton, OH: Plans to convert 46 beds are contingent on completion of a minor construction project presently planned for completion in FY 1989

Canandaigua, NY: Current plans to convert 50 beds in FY 1989 are contingent on completion of a minor construction project.

Batavia, NY: The conversion of 35 beds is planned in FY 1989.

White River Jct., VT: These 15 NHC beds are being converted to Rehabilitation Medicine beds and implementation is planned for FY 1989.

Question: 124(b). The FY 1988 budget document (page 5-19) indicated a similar conversion of 282 beds. Please describe the results of this plan, including the number of beds and facilities in which beds were converted and the dates these actions took place.

Answer: Although conversion of 282 beds was included in the FY 1988 budget, current estimates of beds to be converted are as follows:

Sheridan, WY	50	Ft. Lyon, CO	142
Ft. Meade, SD	30	Altoona, PA	33
Roseburg, OR	15	Bonham, TX	20
Buffalo, NY	34		

TOTAL: 324 beds

This total exceeds that indicated in the FY 1988 budget due to changes in plans and unanticipated slippages of prior year conversions tied to construction projects.

Planning for bed conversions is conducted through the MEDIPP process. The conversions proposed in the budget represent the best information available at the time the budget is prepared and represent our best judgment of the conversions that can be accomplished. Subsequent to preparation of the budget estimates, the planning process continues and, based on this reassessment, revisions to our initial plans are inevitable based on unanticipated developments, e.g., delays because of required construction projects to meet accreditation standards, construction delays due to asbestos removal, and newly identified needs for acute care beds (AIDS).

We are instituting a quarterly monitoring and approval system whereby we will be able to better identify when changes occur and plan to keep the Committees informed when changes take place.

Question: 124(c). The FY 1987 budget document (page 5-17) indicated a similar conversion of 59 beds. Please describe the results of this plan, including the number of beds and facilities in which beds were converted and the dates these actions took place.

Answer: Batavia, NY: Batavia VAMC had 55 operating NHC beds. They were to convert 25 acute medicine beds to NHC beds in FY 1987. Fifteen beds were converted in the fourth quarter of the Fiscal Year.

Buffalo, NY: The conversion of acute medicine to 34 new NHC beds has been changed from FY 1987 to FY 1988. This is due to a continuing asbestos removal project which has kept a ward of beds for use as swing space out of service for an extended period to time.

Cheyenne, WY: Three beds were converted in FY 1987.

Question: 125. The FY 1989 budget document (Page 26-16) summarizes average employment by area and indicates a total decrease of 2,439 FTEE within the VA. Please provide the implementation plan for each change, including increases in specific accounts as well as decreases, and detail which specific services will be affected.

Answer: Medical Care

The FY 1989 budget request reflects a net reduction of 1,782 FTEE from FY 1988 as follows:

	FTEE
Facility Activations.......	+1,882
One Percent Productivity...	-1,944
Staffing Ratio Adjustment..	-1,684
DHCP Savings...............	- 135
Readjustment Counseling....	- 79
Geriatric Residents........	+ 18
MEDIPRO Expansion..........	+ 27
CHAMPVA Payment Center.....	+ 133
Total Employment Change....	-1,782

Implementation plans for the employment changes identified above do not exist per se; however, implementation will be determined as part of the 1989 target allowance process. Some of the affected programs and services are identified on the above chart. For non-specific services (facility activations, one percent productivity and the staffing ratio adjustment), affected services would be determined by the individual medical center director after the target allowance process.

Medical and Prosthetic Research

The 1989 budget request for Medical and Prosthetic Research reflects a net reduction of 110 FTEE as follows:

	FTEE
Investigator - Initiated......	-122
DoD Collaborative Study........	- 57
Reimbursable Program..........	+ 50
AIDS Research.................	+ 35
Women's Epidemiology Study....	- 1
HSR&D Research................	- 15
Total	-110

Implementation plans for the employment changes identified above do not exist per se; however, implementation will be determined as part of the 1989 target allowance and subsequent merit review approval process. Increases and decreases will be associated with the individual programs to be approved, disapproved or terminated during the year.

General Operating Expenses (GOE)

Within the GOE appropriation, the 1989 budget reflects a decrease of 562 FTEE. Of these savings, 492 will occur in the Department of Veterans Benefits. The allocation of these reductions is as follows:

Program	Decrease
Executive Direction	- 19
Veterans Services	- 73
Compensation, Pensions and Education	-248
Loan Guaranty	- 75
Insurance	- 5
Vocational Rehabilitation & Counseling	- 11
ADP Systems Management	- 7
Support Services	- 54
Total	-492

Of the 492 FTEE reduction in 1989, 54 FTEE are for modernization savings. These savings are associated with the loan production system and office automation. THe remaining 438 FTEE are attributable to caseload decreases and general productivity improvements which are commensurate with trends reflecting our declining veteran population.

The remaining 70 FTEE decrease in GOE will occur in General Administration. Savings in the Office of Information Systems and Telecommunications (OIS&T) of 16 FTEE results from the Most Efficient Organizations (MEO) studies performed by the Austin and Philadelphia DPCs. Implementation of OMB Circular A-76 in the VACO mail and audio-visuals activities will save 23 FTEE in the Office of Administration. As a result of office automation throughout the General Administration offices, 31 FTEE will be saved with no deleterious effect on services provided.

Construction, minor

In the Construction, minor appropriation, General Administration there is an increase of 9 FTEE. This is a result of an increase in Purchase and Hire employees. These are non-ceiling personnel and are funded as part of the construction project cost.

Office of Procurement and Supply

The Office of Procurement and Supply is requesting an additional 6 FTEE. Five additional FTEE are needed to support efforts in the standardization of medical supplies and pharmaceuticals. The other one FTEE is requested for depot merchandising operations to reach the MEO employment level. This additional employment would be funded by the revolving fund.

Question: 126(a). It is my understanding that overtime hours worked are not included in the figures in the reported budget as "actual" FTEEs. Are the costs of expected overtime provided for in the budget?

Answer: Yes.

Question: 126(a)(i). (If yes) Please provide for the record the overtime costs included in the various medical care salary accounts for the past 2 fiscal years, and fiscal 88 and 89 and actual overtime costs in fiscal years 1986 and 1987 and your best estimate of those costs in fiscal 88 and 89.

Answer:

FY 1986	$61,482,910
FY 1987	$66,567,688
FY 1988	$69,294,000
FY 1989	Not separately identified in the FY 1989 budgeted personal services level of $6.4 billion but would be in the same range as FY 1988.

Question: 126(b). Since overtime hours worked are paid at a higher rate of pay than regular hours worked, would not the agency save substantial amounts if positions were created and employees hired to work regular hours instead of overtime?

Answer: No. Overtime is not used in lieu of hiring regular employees except in those instances where staffing shortages exist and the use of overtime pay is the only way to provide needed coverage. Under normal conditions overtime usage is limited to temporary or unplanned situations where the use of overtime pay is in fact more economical than hiring and training temporary employees.

The VA budget documents indicate that the VA loan guaranty subsidy appropriation that would be required as a result of the Administration's proposed credit subsidy legislation would be approximately $1.34 billion, based on the Administration's estimate of the amount of loans which will be guaranteed and direct loans which will be made in FY 1989.

Question 127(a): If these estimates prove to be too low and the loan guaranty subsidy appropriation is exhausted before the end of fiscal 89, would additional appropriations be required for the VA to continue to guarantee loans?

Answer 127(a): The Administration considers the veterans home loan program to be an entitlement program. Nothing in the credit reform proposal alters the credit programs Congress has enacted or changes the existing authority of agencies to operate these programs. Agencies will continue to arrange and approve direct loans and guarantees in the way they do now. Thus, its implementation would not impact either the veterans' benefits or the operation of the program.

Currently, there is no limitation on the level of loans guaranteed by the VA in any year. This fact is reiterated in the Special Analyses section of the 1989 President's budget. The Special Analyses Budget (page F-14) states: "limitations are not proposed for programs in which authorizing legislation provides a clear entitlement to qualified applicants." the subsidy appropriation language for the LGRF will reflect this fact by requesting permanent indefinite appropriation.

Further details on the specifics of how Treasury will adjust for initial estimates of credit subsidies will accompany the Administration's proposed legislation.

Question 127(b): What would happen if those additional appropriations were not provided?

Answer 127(b): Based on our understanding of the proposed legislation, this could not happen.

As stated in our response to question 88(b)(i), the subsidy appropriation language for LGRF will be permanent indefinite. Therefore, the subsidy will in no way control the LGRF program level and the situation revised in the question is impossible.

Question 127(c): If the credit subsidy legislation were enacted, would receipts from the 1 percent loan fee, from sales of VA-acquired foreclosed properties, and from vendee loan sales continue to be deposited in the LGRF?

Answer 127(c): Before answering the specifics of the question, it is first necessary to understand what credit reform would do. All transactions associated with guarantees made prior to October 1, 1988, or the effective date of credit reform, would continue to be funded and received by the existing LGRF appropriation. After the effective date of credit reform, all loan guarantees by the Federal Government will be guarantees of the new Federal Credit Guaranteed Revolving Fund (Guaranteed Loan Fund) in Treasury. Below is a specific explanation of each of the items listed in the question:

- 1 percent loan fee - Since collection of the funding fee is made from new loan guarantees, these receipts would be transferred to the Guaranteed Loan Fund in Treasury. Collection of the 1 percent loan fee is used in calculating the grant-equivalent subsidy.

- Sales of VA acquired properties - both the acquisition and sale of acquired properties are dependent upon when the initial guarantee was made. If the original guarantee occurred prior to enactment of Credit Reform, both the acquisition of the property, as well as the sale, whether on a cash or vendee basis, would continue to be received by the existing LGRF appropriation.

  The Guaranteed Loan fund would record obligations and receive receipts from guarantees made after enactment of Credit Reform.

Beginning in fiscal year 1989 all direct loans of the Federal government will be direct loans of the Direct Loan Fund. Federal agencies will, through their subsidy accounts, obligate the subsidy portion of the loan. The Federal agencies will select the borrowers and will establish the terms and conditions of the loan contract. The Federal agencies will be limited in their authority to write loans to the authority provided in program authorizations. The obligation of the subsidy by the agency will obligate simultaneously the Direct Loan Fund to provide financing for the nonsubsidized portion of the loan. Payments of principal and interest by the borrower will be made to the Fund through the agencies.

The budget proposals for all direct loan programs will, beginning in fiscal year 1989, contain both a program level measure -- total direct loan obligations -- and an estimate of the subsidies to be provided.

The President's Fiscal Year 1989 Budget reflects the effects of the proposed Act. The Act requires both a program level limitation and a subsidy appropriation to provide for continued use of the credit budget controls and to add the grant-equivalent subsidy measure. The subsidy estimate in the President's Budget are consistent with the program levels requested.

Beginning in fiscal year 1989 all loan guarantees by the Federal Government will be guarantees of the Guaranteed Loan Fund. Federal agencies will, through their subsidy accounts, obligate the subsidy portion of the loan. The Federal agencies will select the borrowers and will establish the terms and conditions of the loan contract. The Federal agencies will be limited in their authority to guarantee loans to the authority provided in program authorizations. The obligation of the subsidy by the agency will commit the Guaranteed Loan fund to guarantee the loan. The loan guarantee commitment will be recorded on the books of the Fund. Payments of loan guarantee fees by the borrower will be made to the Fund, less administrative expenses of the Federal agency otherwise authorized by law and subject to limitation in appropriation acts.

The budget proposals for all loan guarantee programs will, beginning in fiscal year 1989, contain both a program level measure -- total loan guarantee commitments -- and an estimate of the subsidies to be provided.

The President's Fiscal Year 1989 Budget reflects the effects of the proposed Act. The Act requires both credit budget controls on the volume of loan guarantee commitments and a subsidy appropriation. The subsidy estimates in the President's Budget are consistent with the program levels requested.

In regards to vendee loans, the budget anticipates that receipts from the sale of properties guaranteed prior to credit reform on a vendee basis would be received by the Loan Guaranty Revolving Fund.

More details will be provided with the formal submission of the Administration's legislative proposal. Any changes or revisions to this procedure may require a revision to the current budget estimate.

- If the vendee was made prior to credit reform, such as the loan portfolio or loans made just prior to credit reform, the receipts from the sale of these loans would be received by the Loan Guaranty Revolving Fund.

- If the vendee was made after credit reform on a property whose guaranty was made before credit reform, two things would occur. First, since a vendee represents a new loan, this new loan and corresponding grant-equivalent, or subsidy transfer, would be recorded in the LGRF subsidy account. The receipts from the sale of these loans would also be received by the subsidy account.

  Second, since the vendee loan is the result of a property that was guaranteed prior to enactment of credit reform, the Treasury account would transfer to the LGRF appropriation the face value of the vendee or direct loan. All other transactions associated with this loan would be recorded in the LGRF subsidy account at Treasury.

- If a vendee is established on a property guaranteed after enactment of credit reform, all loan sales receipts would be received by the LGRF subsidy account.

The Inspector General's October 30, 1987, semi-annual report stated (on page 1-8) that "improvements in debt collection could enhance the potential of collecting about $16 million owed the VA."

QUESTION 128(a): What steps has the VA taken to implement the IG recommendations for obtaining more reliable information concerning debtors' income and ability to repay their debts, which the IG stated has prevented the referral of $52 million in delinquent debts to the Department of Justice for collection?

ANSWER 128(a): On all referrals to the Department of Justice, the VA now orders a preliminary credit report to determine the debtor's current credit status. If credit status indicates an ability to pay, a secondary credit check is ordered which checks for employment, salary, mortgage or any personal property which could be attached to satisfy the indebtedness. We have also agreed to perform state wage matches based on the Inspector General's recommendation and include that information in our referral package to the Department of Justice. We also provide U.S. Attorneys with lists of debtors who have been referred for litigation and have been identified as Federal employees.

QUESTION 128(b)(i)(ii): Has the VA obtained the taxpayer identification numbers of the 93,000 veterans that the IG stated were needed to pursue the collection of $32 million?

If not, please describe the problems encountered in obtaining them and the plans for resolving or overcoming the problems.

ANSWER 128(b)(i)(ii): The VA took action to identify taxpayer identification numbers as recommended. Lists of accounts without taxpayer numbers were furnished to the regional offices and action was taken to search the claims files for this information. This initiative was completed in January 1988.

QUESTION 128(c): What is the status of the IG's recommendations regarding what the IG referred to as the "premature" elimination of 30,000 delinquent debts from collection actions?

ANSWER 128(c): The IG's recommendation regarding the "premature' elimination of 30,000 delinquent debts has been closed. Further review showed that all collection action had been taken and no payments had been received on the accounts within the previous year. Some of the accounts were pending litigation with VA District Counsels and the Department of Justice but they totalled only 5,800 of the 30,000 identified. The 5,800 accounts were reviewed by the District Counsels and Department of Justice to determine collectibility. Of the 5,800 accounts reviewed, approximately half of the accounts were reinstated.

QUESTION 129: What is the status of the IG's recommendations regarding the charging of interest on delinquent debts and the notification of debtors of the existence of their debts?

ANSWER 129: Preliminary work has begun on cycle processing which will provide the expedited notification on the existence of a debt to debtors as recommended by the I.G. Cycle processing is a primary function which must be in place before interest charging can be modified. Once completed, efforts will be directed toward the implementation of the interest charges as recommended.

QUESTION 130: Regarding the VA's use of credit reporting agencies (CRAs), once a debt referred to such agencies has been paid, what steps are taken by the VA to ensure that CRA records and reports accurately reflect that fact?

ANSWER 130: The VA furnishes update tapes to all CRA's on a monthly basis which reflect any changes affecting the balance of the debt.

QUESTION 131(a): The VA budget documents (page 4-3) indicate that, from October 1985 through October 1987, the VA referred to CRAs 169,000 accounts valued at $190 million. How much of the $190 million owed has been collected?

ANSWER 131(a): The VA does not currently track collections on accounts which have been referred to CRA's as a separate report item. Therefore, we cannot provide the requested information at this time.

QUESTION 131(b): To what extent can those collections be attributed to the use of referrals to CRAs?

ANSWER 131(b): Since the VA uses several collection tools such as CRA's, IRS refund offset, private collection agencies and litigation simultaneously, it is difficult to attribute collections solely to the use of CRA's.

QUESTION 132(a): What criteria are used to determine when and if a debt is referred to a collection agency?

ANSWER 132(a): If all collection action has been taken on an account without success and the account is over 1-year old, it becomes a candidate for referral to a private collection agency.

QUESTION 132(b): Is a collection agency authorized to add its fee onto the amount owed to the VA so that the debtor pays the fee?

ANSWER 132(b): According to the GSA contract governing private collection agency referrals, the collection agency is authorized to add its fee to the amount owed. Collection costs, including those of private collection agencies are administrative costs of collection incurred by the United States which are assessed to debtors according to 38 U.S.C. 3115.

QUESTION 133: The VA's budget documents (page 4-4) indicate that a review completed in June 1987, of loan guaranty debts, recommended "measures to reduce the amount of time required for foreclosures." Please describe the recommended measures and the steps the VA has taken to implement them.

ANSWER 133: The review completed in June 1987 stated that undue delays by lenders in initiating and prosecuting foreclosure actions increased guaranty amounts payable by VA and debts established against liable obligors.

Recommendations to reduce the time to foreclosures included earlier identification of insoluble delinquent accounts, establishing earlier cutoff dates for computation of eligible indebtedness and charges when defaults are deemed insoluble and the foreclosure process is unjustifiably delayed and consider the use of fee attorneys for processing foreclosure and bankruptcy action on VA portfolio loans. The following actions have been taken to implement the recommendations:

An automated report mechanism was established to identify delinquent accounts and provide the information to the regional offices for followup action.

Loan Guaranty regulations were amended to decrease from 60 to 30 days the time VA will allow a loan holder to begin termination proceedings on a defaulted loan when imposing a cutoff date for the computation of the eligible indebtedness.

The VA Office of General Counsel and the Department of Justice have entered into an agreement on the use of fee attorneys for foreclosures and bankruptcies. A number of District Counsels are now using such attorneys where need exists.

FURTHER WRITTEN FOLLOWUP QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question: 1. As you know, Section 106 of Public Law 98-160 amended Section of 601(6) (A) (i) Title 38 to mandate the VA to provide preventive health services to service-connected disabled veterans and further to authorize the provision of preventive health services to any veteran.

1A. What is the current and projected funding level for this program in FY 1988 and FY 1989?

Answer: The Preventive Medicine Program is accomplished within current medical care funds. While Congress originally authorized up to $15 million for the program in 1979, no additional funds have been appropriated specifically for this purpose.

Question: 1B(i). How many FTEE are currently allocated to manage and to implement preventive-health-care program activities at both the Central Office and in the field on a full-time basi

Answer: There are no full-time FTEE devoted to the Preventive Medicine Program in Central Office or in the field. Each VAMC has a preventive medicine coordinator who performs this function as a collateral duty.

Question: 1B(ii). What is the curent management structure and line authority for the program in Central Office?

Answer: The Preventive Medicine Program is one of the responsibilities assigned to the Director of Medical Service in Central Office. He utilizes an Ad Hoc Field Advisory Group to assist in program planning and review of preventive medicine. In addition, an administrative assistant located at the Washington, DC, VAMC devotes part of his time to assisting the Director of Medical Service with the Preventive Medicine Program. The Director of Medical Service reports to the ACMD for Clinical Affairs who in turn reports to the Associate Deputy Chief Medical Director.

Question: 1C(i). What targeted activities and specific direction have been given to individual VA medical centers to pursue a preventive health program in FY 1989?

Answer: A recently approved DM&S Circular contains guidance for the preventive medicine program. In addition to the nine previous intervention areas promulgated to the field, this new circular adds PAP, mammography, and glaucoma screening.

Question: 1C(ii). What targeted activities and specific initiatives are planned for FY 1989?

Answer: In addition to the initiatives mentioned above, the specific initiative will be cholesterol screening. We are also interested in the prevention of myocardial infarction and stroke. To combat the three major risk factors -- smoking, hypertension, and high cholesterol -- we are working on an initiative to establish Coronary Risk Factors Clinics.

Question: 2. In his written testimony the Administrator stated that "new highs of . . . 23 million outpatients will seek VA medical treatment." Is the VA now treating on a timely basis all outpatients who apply?

Answer: The VA has no established time standard for provision of medical care. Guidance has been provided to our medical centers indicating that emergent patients must receive expeditious handling. This is consistent with good medical practice. Other veterans are provided care consistent with their established Priority Group for care with first priority being given to service-connected veterans for outpatient and nursing home care and to Category A veterans for hospital care. All eligible outpatients who apply and need care are being served.

Question: 3. The American Hospital Association provides two fee-basis services to its members (called Monitrend and Hospital Administrative Services Data Book) whereby they publish comparison data on a regional, national, and hospital-specific basis related to staffing levels, productivity, and other workload indicators. Does DM&S have access to this service and would such information be helpful to the VA?

Answer: The VA does not have access to these services because of the cost, ($2,000 for each service per VA medical center), and the information provided is not in formats suitable to make meaningful comparisons. Monitrend formats served as a guide in developing the Decentralized Medical Management System (DMMS) at the Hines VAMC. The various fiscal and medical summary reports published by the agency parallel these AHA systems. Data is shared on an ad hoc basis.

Question: 4. In response to my pre-hearing questions 11.A and 11.B, you stated that a second Survey of Health Occupational Staff has been completed and that the data are being analyzed. Please provide a copy of the Survey as well as the results of the analysis performed.

Answer: A Preliminary Report has been completed and it, along with a copy of the survey document, is provided. It is important to note that this report represents a very early review of the data received through the survey and further analysis may result in some changes. The final report is expected to be finished by approximately May 15, 1988, and will be provided to the Committee's Chief Counsel and Staff Director upon completion.

Preliminary Report

1987 SURVEY
OF
HEALTH OCCUPATIONAL STAFF

Prepared By
Office of Personnel and Labor Relations
February 23, 1988

SUMMARY

This preliminary report compares selected data from the Fiscal Year (FY) 1987 and FY 86 Surveys of Health Occupational Staff for the following six occupations: registered nurse, licensed practical/vocational nurse, nursing assistant, pharmacist, physical therapist, and occupational therapist. Data is also compared for each occupation according to nine representative geographic areas which include Boston, New York City, New York City (Extended), Washington/Baltimore, Florida, Texas, Chicago, Southern California, and Northern California.

The overall data shows that the number of full-time pharmacists, physical therapists, and licensed practical/vocational nurses on the rolls as of September 30, 1987, increased while the number of registered nurses, nursing assistants, and occupational therapists decreased.

Turnover rates increased for registered nurses, licensed practical/vocational nurses, nursing assistants, and occupational therapists. They decreased for pharmacists and physical therapists.

Vacancy rates increased for registered nurses, licensed practical/vocational nurses, pharmacists, and occupational therapists. The vacancy rate decreased for physical therapists. For nursing assistants, the number of employees on duty exceeded authorized staffing levels in FY 87 but at a lower rate than in FY 86.

Authorized ceiling was increased in FY 87 for all occupations except nursing assistant, which was decreased. In all occupations, except nursing assistant, the sum of the full-time equivalent (FTE) staff on duty and the net vacancies, which equates to authorized ceiling, was higher in FY 87 than in FY 86. Though the number of FTE licensed practical/vocational nurses, pharmacists, and physical therapists on duty increased in FY 87, the number of vacancies for each of these categories of employees increased as well. The increases in number of vacancies reported for nurses and occupational therapists in FY 87 compared to FY 86 are much higher than the decreases in on-duty staff.

As reflected in the FY 86 survey results, the FY 87 findings indicate wide variances in the severity of facilities' recruitment and retention difficulties. Comparisons of data by geographic area for each occupation follow:

> Registered Nurse. Turnover rates have increased in all areas. Vacancy rates have increased in all areas except Chicago and Northern California. Some facilities in these areas reported over-ceiling situations (i.e., the number of FTE on duty exceeded the authorized FTE). The turnover and vacancy rate figures reported by the Washington/Baltimore facilities were highest in FY 87.
>
> Licensed Practical/Vocational Nurse. Turnover rates have increased in all areas with the highest figures reported by the Southern California, Boston, and Texas facilities. Reported vacancy rates range from very high in the New York City (Extended) area to an over-ceiling situation in the Texas area.

Nursing Assistant. Turnover rates have increased in all areas except Texas. Vacancy rates have increased in Chicago and New York City. New York City (Extended), as well as, Washington/Baltimore and Northern California reported over-ceiling situations. Vacancy and turnover rates were highest for the Boston area.

Pharmacist. Turnover rates have decreased in the New York City (Extended), Florida, Texas, and Northern and Southern California areas. Vacancy rates have decreased in all areas. Boston and Northern California reported over-ceiling situations. Florida's vacancy rate was the highest of all areas in FY 86 and FY 87.

Physical Therapist. Turnover rates have increased in Boston, Washington/Baltimore, Texas, and Chicago. Vacancy rates have increased in Washington/Baltimore, Texas, Chicago, and Southern California. Chicago reported the highest vacancy and turnover rates, followed by New York City.

Occupational Therapist. New York City, New York City (Extended), Texas, and Southern California reported increased turnover rates. Vacancy rates have increased in Texas, Washington/Baltimore, Southern California, and Chicago. The New York City (Extended) area reported the highest turnover and vacancy rates. Sharp increases were reported by facilities in the Texas and Southern California areas for both rates.

A complete report, providing additional analyses of staffing factors for the six occupations and the data on other occupations surveyed (dental assistant, diagnostic radiologic technician/technologist, nuclear medicine technician/technolgist, and certified/registered respiratory therapist), will soon be available.

COMPARISON OF FY 86 & FY 87 AGENCYWIDE STAFFING DATA FOR SELECTED OCCUPATIONS

	Registered Nurse			Licensed Practical/ Vocational Nurse			Nursing Assistant		
	FY86	FY87	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86	FY87	DIFF (87-86)
FTE on duty as of 9/30	33,582	33,294	-288	10,613	10,832	219	16,260	15,937	-323
Turnover Rate (%)	16.1	21.9	5.8	18.9	30.3	11.4	16.3	20.1	3.8
Net Vacancies as of 9/30	52	2,021	1,969	1,085	1,292	207	-629*	-377*	252
Vacancy Rate (%)	0.2	5.7	5.5	9.3	10.7	1.4	-4.0*	-2.4*	1.6

	Pharmacist			Physical Therapist			Occupational Therapist		
	FY86	FY87	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86	FY87	DIFF (87-86)
FTE on duty as of 9/30	2,982	3,156	174	580	614	34	689	663	-26
Turnover Rate (%)	22.6	19.9	-2.7	26.5	24.5	-2.0	23.0	25.9	2.9
Net Vacancies as of 9/30	84	220	136	172	178	6	70	105	35
Vacancy Rate (%)	2.7	6.5	3.8	22.9	22.5	-0.4	9.2	13.8	4.6

*Negative figures indicate over-ceiling situations.

TURNOVER RATE represents the proportion of losses in a category of employees to the total number of employees in the category. The turnover rate equals the total number of full-tim losses during the fiscal year divided by the number of full-time permanent employees on dut as of September 30.

NET VACANCIES equal the difference obtained from subtracting the total number of staff on rolls as of September 30 from the total amount of authorized ceiling.

VACANCY RATE represents the proportion of net vacancies to the total authorized ceiling. The vacancy rate equals the number of vacancies divided by the total authorized ceiling.

COMPARISON OF FY 86 & FY 87 STAFFING DATA FOR REGISTERED NURSES BY SELECTED GEOGRAPHIC AREA

	Turnover Rate			Net Vacancies			Vacancy Rate		
	FY86 (%)	FY87 (%)	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86 (%)	FY87 (%)	DIFF (87-86)
Boston	**19.3**	**27.7**	**8.4**	**-39**	**101**	**140**	**-4.1**	**10.2**	**14.3**
Bedford	12.1	14.4	2.3	2	19	17	0.6	7.0	6.4
Boston	26.1	41.7	15.6	7	51	44	2.2	16.5	14.3
Boston-IOC	30.8	16.7	-14.1	3	7	4	12.9	26.2	13.3
Brockton/W. Rox.	18.6	27.2	9.1	-51	24	75	-13.4	6.3	19.7
New York City	**16.5**	**23.9**	**7.4**	**19**	**66**	**47**	**1.7**	**5.6**	**3.9**
Bronx	22.2	36.1	13.9	33	8	-25	9.9	2.4	-7.5
Brooklyn	13.0	19.7	6.7	-10	32	42	-1.9	6.3	8.2
New York	16.7	19.5	2.8	-4	26	30	-1.2	7.6	8.8
New York City (Extd.)	**16.5**	**26.5**	**10.0**	**53**	**138**	**85**	**2.8**	**7.1**	**4.3**
Bronx	22.2	36.1	13.9	33	8	-25	9.9	2.4	-7.5
Brooklyn	13.0	19.7	6.7	-10	32	42	-1.9	6.3	8.2
Castle Point	10.7	46.4	35.7	19	8	-11	11.1	4.3	-6.8
Montrose	24.0	28.2	4.2	28	65	37	10.4	24.2	13.8
New York	16.7	19.5	2.8	-4	26	30	-1.2	7.6	8.8
Northport	13.7	26.4	12.7	-13	-1	12	-4.5	-0.1	4.4
Washington/Baltimore	**19.4**	**33.2**	**13.8**	**43**	**123**	**80**	**5.4**	**15.4**	**10.0**
Baltimore	20.5	35.5	15.0	17	31	14	9.6	17.7	8.1
Ft. Howard	20.3	63.0	42.7	13	28	15	15.8	33.4	17.6
Perry Point	17.8	23.3	5.5	5	11	6	3.0	6.5	3.5
Washington, D.C.	19.0	32.6	13.6	8	53	45	2.1	14.4	12.3
Florida	**14.7**	**19.3**	**4.6**	**22**	**28**	**6**	**1.4**	**1.8**	**0.4**
Bay Pines	13.1	18.5	5.4	3	-5	-8	0.8	-1.4	-2.2
Gainesville	19.4	23.3	3.9	-3	14	17	-0.9	4.6	5.5
Lake City	9.9	15.9	6.0	-1	7	8	-0.9	4.6	5.5
Miami	13.6	18.4	4.8	26	9	-17	6.4	2.3	-4.1
Tampa	16.0	19.1	3.1	-3	3	6	-0.8	0.8	1.6
Texas	**13.9**	**22.2**	**8.3**	**-1**	**17**	**18**	**-0.1**	**0.8**	**0.9**
Amarillo	16.3	29.1	12.8	-4	-9	-5	-5.0	-10.9	-5.9
Big Spring	50.9	32.7	-18.2	8	6	-2	11.3	8.5	-2.8
Bonham	16.1	18.6	2.5	1	1	0	1.7	1.6	-0.1
Dallas	8.8	18.2	9.4	-5	-2	3	-1.2	-0.5	0.7
El Paso-IOC	0.0	12.5	12.5	0	0	0	0.0	0.0	0.0
Houston	14.3	25.1	10.8	-1	16	17	-0.3	3.7	4.0
Kerrville	11.2	31.8	20.6	-8	3	11	-6.9	2.7	9.6
Marlin	26.1	22.9	-3.2	2	1	-1	4.0	2.0	-2.0
San Antonio	10.3	20.9	10.6	-9	-19	-10	-2.2	-4.3	-2.1
Temple	17.1	21.0	3.9	4	10	6	1.6	4.4	2.8
Waco	15.3	19.1	3.8	11	10	-1	5.9	5.4	-0.5
Chicago	**10.5**	**14.6**	**4.1**	**-8**	**-21**	**-13**	**-0.8**	**-1.8**	**-1.0**
Chicago (LS)	7.5	19.4	11.9	7	-1	-8	3.2	-0.3	-3.5
Chicago (WS)	7.6	17.3	9.7	-2	6	8	-0.8	2.4	3.2
Hines	12.7	12.2	-0.5	-13	-26	-13	-2.2	-4.1	-1.9
So. California	**18.4**	**24.9**	**6.5**	**43**	**128**	**85**	**2.1**	**6.1**	**4.0**
Loma Linda	17.2	51.0	33.8	-9	27	36	-3.6	10.8	14.4
Long Beach	22.8	19.8	-3.0	8	10	2	1.4	1.9	0.5
W. Los Angeles	14.8	18.8	4.0	38	70	32	6.0	11.0	5.0
Los Angeles-IOC	7.7	7.7	0.0	0	0	0	0.0	0.0	0.0
San Diego	15.8	23.7	7.9	-7	2	9	-2.0	0.6	2.6
Sepulveda	21.7	30.5	8.8	13	19	6	4.4	6.9	2.5
No. California	**24.3**	**26.1**	**1.8**	**7**	**-33**	**-40**	**0.7**	**-3.1**	**-3.8**
Livermore	34.4	24.2	-10.2	-3	4	7	-2.6	3.9	6.5
Martinez	22.6	29.0	6.4	-6	-20	-14	-3.1	10.7	-7.6
Palo Alto	21.2	26.2	5.0	10	10	0	2.0	1.9	-0.1
San Francisco	27.4	24.0	-3.4	6	-27	-33	2.3	-10.7	-13.0

COMPARISON OF FY 86 & FY 87 STAFFING DATA FOR LICENSED PRACTICAL/VOCATIONAL NURSES BY SELECTED GEOGRAPHIC AREA

	Turnover Rate			Net Vacancies			Vacancy Rate		
	FY86 (%)	FY87 (%)	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86 (%)	FY87 (%)	DIFF (87-86)
Boston	**21.2**	**34.8**	**13.6**	**29**	**55**	**26**	**14.5**	**27.0**	**12.5**
Bedford	12.1	28.6	16.5	-9	-2	7	-29.9	-8.0	21.9
Boston	35.4	53.8	18.4	28	42	14	31.6	47.7	16.1
Boston-IOC	NA	NA	NA	NA	NA	NA	NA	NA	NA
Brockton/W. Rox.	15.7	26.2	10.5	10	15	5	11.8	17.7	5.9
New York City	**14.9**	**27.2**	**12.3**	**6**	**35**	**29**	**2.6**	**16.3**	**13.7**
Bronx	15.1	20.5	5.4	-4	17	21	-6.6	25.4	32.0
Brooklyn	15.8	32.2	16.4	11	24	13	9.2	20.7	11.5
New York	11.5	22.2	10.7	-1	-6	-5	-3.2	-17.9	-14.7
New York City (Extd.)	**22.9**	**30.8**	**7.9**	**143**	**241**	**98**	**26.7**	**40.1**	**13.4**
Bronx	15.1	20.5	5.4	-4	17	21	-6.6	25.4	32.0
Brooklyn	15.8	32.2	16.4	11	24	13	9.2	20.7	11.5
Castle Point	10.7	69.2	58.5	2	5	3	6.9	14.3	7.4
Montrose	36.1	22.2	-13.9	77	148	71	63.8	78.2	14.4
New York	11.5	22.2	10.7	-1	-6	-5	-3.2	-17.9	-14.7
Northport	35.3	29.3	-6.0	58	53	-5	34.2	32.8	-1.4
Washington/Baltimore	**26.7**	**28.6**	**1.9**	**24**	**30**	**6**	**9.7**	**13.0**	**3.3**
Baltimore	16.7	32.3	15.6	5	6	1	12.0	16.3	4.3
Ft. Howard	36.4	44.0	7.6	12	10	-2	30.5	26.0	-4.5
Perry Point	24.2	30.2	6.0	-10	-11	-1	-18.2	-19.3	-1.1
Washington, D.C.	29.5	20.8	-8.7	17	25	8	15.8	23.7	7.9
Florida	**20.9**	**28.2**	**7.3**	**25**	**14**	**-11**	**4.4**	**2.4**	**-2.0**
Bay Pines	16.2	26.2	10.0	5	7	2	3.7	5.1	1.4
Gainesville	20.6	38.7	18.1	3	2	-1	2.3	1.8	-0.5
Lake City	21.7	30.8	9.1	-4	2	6	-9.1	4.5	13.6
Miami	34.6	26.2	8.4	17	1	-16	24.9	1.9	-23.0
Tampa	20.5	24.2	3.7	4	2	-2	2.0	0.7	-1.3
Texas	**15.0**	**32.1**	**17.1**	**12**	**-29**	**-41**	**1.8**	**-4.2**	**-6.0**
Amarillo	8.7	29.6	20.9	-1	-5	-4	-1.9	-20.8	-18.9
Big Spring	35.0	32.2	-2.8	-5	-7	-2	-22.7	-29.2	-6.5
Bonham	10.3	26.5	16.2	1	1	0	3.1	1.7	-1.4
Dallas	15.6	5.9	-9.7	-3	-3	0	-3.0	-2.7	0.3
El Paso-IOC	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
Houston	11.5	63.2	51.7	4	-28	-32	3.3	-23.8	-27.1
Kerrville	24.3	45.2	20.9	6	0	-6	7.9	0.0	-7.9
Marlin	6.3	14.7	8.4	0	-2	-2	0.0	-6.3	-6.3
San Antonio	0.0	5.6	5.6	0	-4	-4	0.0	-28.6	-28.6
Temple	13.1	28.5	15.4	-4	2	6	-3.3	1.5	4.8
Waco	17.4	31.3	13.9	14	17	3	10.4	12.6	2.2
Chicago	**10.6**	**14.9**	**4.3**	**41**	**16**	**-25**	**14.7**	**5.2**	**-9.5**
Chicago (LS)	17.5	5.0	-12.5	7	0	-7	14.9	0.0	-14.9
Chicago (WS)	9.7	15.6	5.9	23	0	-23	26.9	0.0	-26.9
Hines	8.8	17.1	-8.3	11	16	5	7.5	8.4	0.9
So. California	**25.0**	**48.3**	**23.3**	**70**	**19**	**-51**	**13.7**	**4.3**	**-9.4**
Loma Linda	25.0	69.5	44.5	-5	-23	-18	-7.6	-37.2	-29.6
Long Beach	26.1	56.0	29.9	34	13	-21	24.8	11.6	-13.2
W. Los Angeles	13.3	35.3	22.0	32	29	-3	20.4	18.6	1.8
Los Angeles-IOC	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
San Diego	33.0	48.8	15.8	6	6	0	5.3	6.6	1.3
Sepulveda	36.8	36.8	0.0	3	-6	-9	5.8	-14.5	-20.3
No. California	**25.1**	**31.1**	**5.6**	**33**	**67**	**34**	**7.3**	**13.1**	**5.8**
Livermore	71.1	59.0	-12.1	16	9	-7	24.3	16.0	-8.3
Martinez	22.7	37.0	14.3	7	-8	-15	7.7	-8.7	-16.4
Palo Alto	19.0	24.7	5.7	-4	53	57	-1.6	18.7	20.3
San Francisco	22.0	21.4	-0.6	14	13	-1	19.7	18.3	-1.4

COMPARISON OF FY 86 & FY 87 STAFFING DATA FOR NURSING ASSISTANTS BY SELECTED GEOGRAPHIC AREA

	Turnover Rate			Net Vacancies			Vacancy Rate		
	FY86 (%)	FY87 (%)	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86 (%)	FY87 (%)	DIFF (87-86)
Boston	**24.5**	**68.7**	**44.2**	**60**	**41**	**-19**	**8.0**	**5.8**	**-2.2**
Bedford	25.2	96.7	71.5	41	64	23	19.2	32.1	12.9
Boston	24.5	62.4	37.9	-19	-19	0	-14.8	-15.0	-0.2
Boston-IOC	25.0	16.7	-8.3	0	0	0	0.0	0.0	0.0
Brockton/W. Rox.	24.0	61.1	37.1	38	-4	-42	10.3	-1.1	-11.4
New York City	**17.3**	**18.4**	**1.1**	**-20**	**10**	**30**	**-3.2**	**1.5**	**4.7**
Bronx	19.8	24.5	4.7	-45	-9	36	-20.2	-4.1	16.1
Brooklyn	17.1	9.1	-8.0	26	17	-9	12.9	8.6	-4.3
New York	13.4	20.0	6.6	-1	2	3	-0.3	0.9	1.2
New York City (Extd.)	**18.9**	**32.4**	**13.5**	**-109**	**-107**	**2**	**-10.1**	**-10.1**	**0.0**
Bronx	19.8	24.5	4.7	-45	-9	36	-20.2	-4.1	16.1
Brooklyn	17.1	9.1	-8.0	26	17	-9	12.9	8.6	-4.3
Castle Point	21.5	70.2	48.7	-7	0	7	-10.6	0.0	10.6
Montrose	20.7	29.3	8.6	-52	-64	-12	-17.3	-21.6	-4.3
New York	13.4	20.0	6.6	-1	2	3	-0.3	0.9	1.2
Northport	20.2	85.6	65.4	-31	-53	-22	-29.6	-46.9	-17.3
Washington/Baltimore	**16.9**	**26.9**	**10.0**	**17**	**-68**	**-85**	**3.5**	**-15.6**	**-19.1**
Baltimore	26.7	27.3	0.6	-1	-2	-1	-2.3	-4.5	-2.2
Ft. Howard	18.4	61.2	42.8	-4	-42	-38	-8.6	-168.8	-160.2
Perry Point	15.5	22.2	6.7	20	19	-1	7.3	6.9	-0.4
Washington, D.C.	15.1	21.3	6.2	2	-43	-45	2.0	-42.2	-44.2
Florida	**17.4**	**20.3**	**2.9**	**18**	**7**	**-11**	**3.4**	**1.3**	**-2.1**
Bay Pines	24.4	14.4	-7.0	0	-7	-7	0.0	-6.9	-6.9
Gainesville	10.5	15.1	4.6	0	2	2	0.0	3.6	3.6
Lake City	15.1	13.5	-1.6	-3	-9	-6	-3.4	-9.7	-6.3
Miami	12.7	26.4	13.7	13	12	-1	6.6	5.9	-0.7
Tampa	26.4	25.0	-1.4	8	9	1	8.1	9.3	1.2
Texas	**17.4**	**14.2**	**-3.2**	**37**	**106**	**69**	**4.4**	**3.7**	**-0.7**
Amarillo	20.0	22.2	2.2	1	1	0	9.0	6.3	-2.7
Big Spring	21.7	8.7	-13.0	2	2	0	8.8	8.8	0.0
Bonham	31.3	107.1	75.8	0	76	76	0.0	63.3	63.3
Dallas	16.2	12.5	-3.7	7	3	-4	5.6	2.4	-3.2
El Paso-IOC	NA	NA	NA	NA	NA	NA	NA	NA	NA
Houston	15.8	10.8	-5.0	17	35	18	7.2	15.0	7.8
Kerrville	12.2	31.3	19.1	1	-6	-7	2.4	-12.8	-15.2
Marlin	7.1	10.0	2.9	0	2	2	0.0	4.8	4.8
San Antonio	23.8	31.3	7.5	3	-1	-4	12.0	-6.3	-18.3
Temple	14.7	22.6	7.9	-10	0	10	-15.4	0.0	15.4
Waco	21.0	11.8	-9.2	16	-6	-22	6.7	-2.5	-9.2
Chicago	**15.3**	**16.7**	**1.4**	**-12**	**10**	**22**	**-4.0**	**3.2**	**7.2**
Chicago (LS)	16.2	8.8	-7.4	-1	2	3	-2.4	4.5	6.9
Chicago (WS)	16.4	13.3	-3.1	-12	0	12	-21.8	0.0	21.8
Hines	14.7	19.3	4.6	1	8	7	0.5	4.0	3.5
So. California	**17.6**	**21.3**	**3.7**	**65**	**40**	**-25**	**5.9**	**3.9**	**-2.0**
Loma Linda	24.1	23.7	-0.4	9	5	-4	12.9	7.0	-5.9
Long Beach	14.6	18.7	4.1	23	12	-11	6.2	3.2	-3.0
W. Los Angeles	20.1	25.6	5.5	19	20	1	5.3	5.7	0.4
Los Angeles-IOC	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
San Diego	34.3	27.6	-6.7	8	0	-8	16.7	0.0	-16.7
Sepulveda	14.5	17.1	2.6	6	3	-3	2.4	1.7	-0.7
No. California	**14.6**	**25.1**	**10.5**	**51**	**-44**	**-95**	**14.9**	**-15.7**	**-30.6**
Livermore	36.4	13.3	-23.1	1	5	4	8.3	25.0	16.7
Martinez	6.7	63.0	56.3	3	8	5	9.1	22.9	13.8
Palo Alto	14.3	19.8	5.5	40	-62	-102	15.9	-34.0	-49.9
San Francisco	16.2	34.4	18.2	7	5	-2	15.0	11.4	-3.6

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COMPARISON OF FY 86 & FY 87 STAFFING DATA
FOR PHARMACISTS
BY SELECTED GEOGRAPHIC AREA

	Turnover Rate			Net Vacancies			Vacancy Rate		
	FY86 (%)	FY87 (%)	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86 (%)	FY87 (%)	DIFF (87-86)
Boston	**23.1**	**24.6**	**1.5**	**2**	**-2**	**-4**	**3.2**	**-2.0**	**-5.2**
Bedford	36.4	15.4	-21.0	0	-1	-1	0.0	-7.7	-7.7
Boston	30.8	31.8	1.0	1	-3	-4	4.3	-9.8	-14.1
Boston-IOC	20.0	40.0	20.0	0	2	2	0.0	13.3	13.3
Brockton/W. Rox.	5.6	15.0	9.4	1	0	-1	5.3	0.0	-5.3
New York City	**22.5**	**24.0**	**1.5**	**5**	**1**	**-4**	**4.4**	**0.4**	**-4.0**
Bronx	33.3	38.1	-4.8	2	8	6	7.6	24.8	17.2
Brooklyn	15.8	23.7	7.9	3	-5	-8	6.3	-9.3	-15.6
New York	22.5	16.2	-6.3	0	-2	-2	0.0	-4.8	-4.8
New York City (Extd.)	**25.9**	**23.8**	**-2.1**	**14**	**3**	**-11**	**8.0**	**1.3**	**-6.7**
Bronx	33.3	38.1	4.8	2	8	6	7.6	24.8	17.2
Brooklyn	15.8	23.7	7.9	3	-5	-8	6.3	-9.3	-15.6
Castle Point	25.0	37.5	12.5	1	1	0	11.1	11.1	0.0
Montrose	16.7	20.0	3.3	0	0	0	0.0	0.0	0.0
New York	22.5	16.2	-6.3	0	-2	-2	0.0	-4.8	-4.8
Northport	38.7	20.6	-18.1	8	1	-7	18.3	2.4	-15.9
Washington/Baltimore	**18.5**	**24.5**	**6.0**	**6**	**5**	**-1**	**9.1**	**8.5**	**-0.6**
Baltimore	14.3	6.7	-7.6	2	0	-2	12.5	0.0	-12.5
Ft. Howard	28.6	50.0	21.4	0	1	1	0.0	14.3	14.3
Perry Point	75.0	0.0	-75.0	1	0	-1	20.0	0.0	-20.0
Washington, D.C.	10.3	36.4	26.1	3	4	1	7.9	13.4	5.5
Florida	**32.4**	**27.7**	**-4.7**	**41**	**27**	**-14**	**21.0**	**12.4**	**-8.6**
Bay Pines	25.5	22.2	-3.3	10	3	-7	17.5	5.2	-12.3
Gainesville	24.0	30.0	6.0	3	3	0	9.8	7.2	-2.6
Lake City	20.0	28.6	8.6	15	12	-3	75.0	60.0	-15.0
Miami	25.0	11.1	-13.9	3	7	4	5.9	10.5	4.6
Tampa	80.0	62.5	17.5	10	2	-8	27.9	5.6	-22.3
Texas	**18.4**	**16.0**	**-2.4**	**15**	**13**	**-2**	**6.3**	**5.5**	**-0.8**
Amarillo	8.3	15.4	7.1	0	0	0	0.0	0.0	0.0
Big Spring	25.0	16.7	-8.3	3	1	-2	37.1	8.6	-28.5
Bonham	0.0	0.0	0.0	0	1	1	0.0	20.0	20.0
Dallas	33.3	32.1	-1.2	-2	3	5	-6.3	9.1	15.4
El Paso-IOC	0.0	25.0	25.0	1	0	-1	8.3	0.0	-8.3
Houston	18.5	5.4	-13.1	4	1	-3	7.2	1.6	-5.6
Kerrville	20.0	0.0	-20.0	0	0	0	0.0	0.0	0.0
Marlin	33.3	0.0	-33.3	0	1	1	0.0	2.5	2.5
San Antonio	7.5	16.3	8.8	1	2	1	2.4	4.2	1.8
Temple	8.3	28.6	20.3	0	3	3	0.8	12.3	11.5
Waco	40.0	17.4	-22.6	8	1	-7	26.8	3.6	-23.2
Chicago	**23.5**	**27.9**	**4.4**	**5**	**2**	**-3**	**4.4**	**2.0**	**-2.4**
Chicago (LS)	20.0	44.4	24.4	3	3	0	10.9	12.5	1.6
Chicago (WS)	20.0	20.0	0.0	2	3	1	7.1	10.7	3.6
Hines	27.5	25.6	-1.9	0	-4	-4	-0.9	-9.9	-9.0
So. California	**24.2**	**19.4**	**-4.8**	**27**	**13**	**-14**	**11.2**	**5.3**	**-5.9**
Loma Linda	63.6	36.3	-26.8	5	0	-5	26.3	0.0	-26.3
Long Beach	21.5	26.2	4.7	1	4	3	1.5	5.8	4.3
W. Los Angeles	32.7	13.0	-19.7	21	4	-17	27.1	4.7	-22.4
Los Angeles-IOC	12.5	0.0	-12.5	0	0	0	0.0	0.0	0.0
San Diego	22.6	32.0	9.4	-1	6	7	3.3	19.4	16.1
Sepulveda	6.5	6.1	-0.4	1	-1	-2	3.1	-3.0	-6.1
No. California	**21.0**	**17.0**	**-4.0**	**8**	**-7**	**-15**	**8.5**	**-6.8**	**-15.3**
Livermore	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
Martinez	13.6	22.2	8.6	2	-4	-6	7.2	-13.7	-20.9
Palo Alto	30.4	20.0	-10.4	4	-3	-7	14.8	-9.6	-24.4
San Francisco	23.3	13.3	-10.0	2	0	-2	6.1	0.0	-6.1

COMPARISON OF FY 86 & FY 87 STAFFING DATA
FOR PHYSICAL THERAPISTS
BY SELECTED GEOGRAPHIC AREA

	Turnover Rate			Net Vacancies			Vacancy Rate		
	FY86 (%)	FY87 (%)	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86 (%)	FY87 (%)	DIFF (87-86)
Boston	**18.5**	**33.3**	**14.8**	**12**	**8**	**-4**	**29.5**	**23.5**	**-6.0**
Bedford	0.0	0.0	0.0	3	2	-1	35.7	28.6	-7.1
Boston	15.4	33.3	17.9	2	2	0	13.3	18.2	4.9
Boston-IOC	33.3	33.3	0.0	0	1	1	0.0	25.0	25.0
Brockton/W. Rox.	28.6	44.4	15.8	7	3	-4	50.0	25.0	-25.0
New York City	**100.0**	**35.7**	**-64.3**	**17**	**12**	**-5**	**70.8**	**42.1**	**-28.7**
Bronx	50.0	0.0	-50.0	4	2	-2	66.7	22.2	-44.5
Brooklyn	150.0	50.0	-100.0	3	2	-1	60.0	40.0	-20.0
New York	100.0	80.0	-20.0	10	8	-2	76.9	55.7	-21.2
New York City (Extd.)	**58.8**	**34.8**	**-24.0**	**25**	**15**	**-10**	**55.3**	**33.6**	**-21.7**
Bronx	50.0	0.0	-50.0	4	2	-2	66.7	22.2	-44.5
Brooklyn	150.0	50.0	-100.0	3	2	-1	60.0	40.0	-20.0
Castle Point	0.0	50.0	50.0	1	-1	-2	25.0	-25.0	-50.0
Montrose	50.0	100.0	50.0	1	2	1	23.8	57.1	33.3
New York	100.0	80.0	-20.0	10	8	-2	76.9	55.7	-21.2
Northport	40.0	16.7	-23.3	6	2	-4	46.2	22.2	-24.0
Washington/Baltimore	**20.0**	**22.2**	**2.2**	**3**	**5**	**2**	**28.6**	**35.7**	**7.1**
Baltimore	NA	NA	NA	NA	NA	NA	NA	NA	NA
Ft. Howard	25.0	25.0	0.0	0	1	1	0.0	20.0	20.0
Perry Point	0.0	0.0	0.0	1	1	0	33.3	33.3	0.0
Washington, D.C.	25.0	33.3	8.3	2	3	1	33.3	50.0	16.7
Florida	**36.7**	**15.6**	**-21.1**	**7**	**5**	**-2**	**18.9**	**12.3**	**-6.6**
Bay Pines	66.7	66.7	0.0	2	2	0	40.0	40.0	0.0
Gainesville	37.5	0.0	-37.5	0	0	0	0.0	0.0	0.0
Lake City	100.0	0.0	-100.0	1	0	-1	50.0	0.0	-50.0
Miami	20.0	0.0	-20.0	3	1	-2	23.1	4.0	-19.1
Tampa	37.5	37.5	0.0	1	2	1	11.1	20.0	8.9
Texas	**26.9**	**34.8**	**7.9**	**3**	**6**	**3**	**10.3**	**18.9**	**8.6**
Amarillo	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
Big Spring	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
Bonham	100.0	0.0	-100.0	0	1	1	0.0	100.0	100.0
Dallas	66.7	33.3	-33.4	3	0	-3	50.0	0.0	-50.0
El Paso-IOC	NA	NA	NA	NA	NA	NA	NA	NA	NA
Houston	14.3	16.7	2.4	0	-1	-1	0.0	-14.3	-14.3
Kerrville	50.0	100.0	50.0	0	1	1	0.0	50.0	50.0
Marlin	0.0	0.0	0.0	0	1	1	0.0	100.0	100.0
San Antonio	20.0	14.3	-5.7	0	3	3	0.0	30.0	30.0
Temple	33.3	0.0	-33.3	0	1	1	0.0	25.0	25.0
Waco	0.0	100.0	100.0	0	0	0	0.0	0.0	0.0
Chicago	**22.2**	**37.5**	**15.3**	**9**	**15**	**6**	**45.5**	**56.0**	**10.5**
Chicago (LS)	0.0	200.0	200.0	2	2	0	40.0	66.7	26.7
Chicago (WS)	0.0	0.0	0.0	3	1	-2	51.7	28.3	-23.4
Hines	50.0	20.0	-30.0	4	12	8	44.4	60.0	15.6
So. California	**15.4**	**13.2**	**-2.2**	**8**	**17**	**9**	**16.2**	**30.0**	**14.0**
Loma Linda	20.0	20.0	0.0	0	1	1	0.0	16.7	16.7
Long Beach	35.7	15.4	-20.3	2	2	0	12.5	13.2	0.7
W. Los Angeles	0.0	0.0	0.0	4	10	6	28.6	50.0	21.4
Los Angeles-IOC	0.0	0.0	0.0	1	0	-1	50.0	12.5	-37.5
San Diego	0.0	40.0	40.0	0	2	2	0.0	28.6	28.6
Sepulveda	0.0	0.0	0.0	1	2	1	15.9	33.3	17.4
No. California	**50.0**	**19.0**	**-31.0**	**10**	**9**	**-1**	**33.3**	**27.2**	**-6.1**
Livermore	0.0	0.0	0.0	1	1	0	33.3	23.4	-9.9
Martinez	83.3	0.0	-83.3	3	2	-1	33.3	22.2	-11.1
Palo Alto	42.9	28.6	-14.3	5	5	0	41.7	37.5	-4.2
San Francisco	40.0	40.0	0.0	1	1	0	16.7	16.7	0.0

COMPARISON OF FY 86 & FY 87 STAFFING DATA
FOR OCCUPATIONAL THERAPISTS
BY SELECTED GEOGRAPHIC AREA

	Turnover Rate			Net Vacancies			Vacancy Rate		
	FY86 (%)	FY87 (%)	DIFF (87-86)	FY86	FY87	DIFF (87-86)	FY86 (%)	FY87 (%)	DIFF (87-86)
Boston	**61.5**	**29.2**	**-32.3**	**10**	**5**	**-5**	**26.4**	**13.8**	**-12.6**
Bedford	85.7	50.0	-35.7	4	3	-1	36.4	27.3	-9.1
Boston	85.7	33.3	-52.4	2	1	-1	17.2	5.6	-11.6
Boston-IOC	NA	NA	NA	NA	NA	NA	NA	NA	NA
Brockton/W. Rox.	40.0	10.0	-30.0	4	1	-3	28.6	8.0	-20.6
New York City	**38.9**	**60.0**	**21.1**	**16**	**9**	**-7**	**47.1**	**25.2**	**-18.1**
Bronx	33.3	100.0	66.7	4	4	0	57.1	70.0	12.9
Brooklyn	25.0	60.0	35.0	4	4	0	33.3	33.3	0.0
New York	57.1	55.6	-1.5	8	1	-7	53.3	-7.0	-60.3
New York City (Extd.)	**42.3**	**70.0**	**27.7**	**23**	**14**	**-9**	**44.5**	**26.5**	**-18.0**
Bronx	33.3	100.0	66.7	4	4	0	57.1	70.0	12.9
Brooklyn	25.0	60.0	35.0	4	4	0	33.3	33.3	0.0
Castle Point	0.0	0.0	0.0	1	-2	-3	26.3	-66.7	-93.0
Montrose	0.0	100.0	100.0	0	1	1	0.0	45.5	45.5
New York	57.1	55.6	-1.5	8	1	-7	53.3	-7.0	-60.3
Northport	80.0	200.0	120.0	6	6	0	51.3	50.4	-0.9
Washington/Baltimore	**45.5**	**20.0**	**-25.5**	**2**	**3**	**1**	**15.4**	**23.1**	**7.7**
Baltimore	NA	NA	NA	NA	NA	NA	NA	NA	NA
Ft. Howard	33.3	0.0	-33.3	0	0	0	0.0	0.0	0.0
Perry Point	0.0	16.7	16.7	0	1	1	0.0	14.3	14.3
Washington, D.C.	400.0	100.0	-300.0	2	2	0	66.7	66.7	0.0
Florida	**43.3**	**16.7**	**-26.6**	**7**	**3**	**-4**	**18.2**	**6.4**	**-11.8**
Bay Pines	20.0	33.3	13.3	1	0	-1	16.7	0.0	-16.7
Gainesville	42.9	0.0	-42.9	0	0	0	0.0	0.0	0.0
Lake City	0.0	0.0	0.0	1	0	-1	33.3	0.0	-33.3
Miami	120.0	20.0	-100.0	5	1	-4	45.5	9.1	-36.4
Tampa	27.3	18.2	-9.1	0	2	2	0.0	12.0	12.0
Texas	**11.9**	**21.9**	**10.0**	**2**	**8**	**6**	**4.5**	**19.5**	**15.0**
Amarillo	NA	NA	NA	NA	NA	NA	NA	NA	NA
Big Spring	0.0	0.0	0.0	0	-1	-1	0.0	-100.0	-100.0
Bonham	0.0	1.0	1.0	0	1	1	0.0	100.0	100.0
Dallas	25.0	0.0	-25.0	0	8	8	0.0	100.0	100.0
El Paso-IOC	NA	NA	NA	NA	NA	NA	NA	NA	NA
Houston	12.5	14.3	1.8	1	0	-1	11.1	0.0	-11.1
Kerrville	100.0	0.0	-100.0	0	0	0	0.0	0.0	0.0
Marlin	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
San Antonio	0.0	0.0	0.0	0	0	0	0.0	0.0	0.0
Temple	0.0	16.7	16.7	0	0	0	0.0	0.0	0.0
Waco	11.1	12.5	1.4	1	0	-1	10.0	0.0	-10.0
Chicago	**25.0**	**13.3**	**-11.7**	**4**	**4**	**0**	**20.0**	**21.1**	**1.1**
Chicago (LS)	100.0	0.0	-100.0	2	0	-2	50.0	0.0	-50.0
Chicago (WS)	0.0	25.0	25.0	1	1	0	200.0	200.0	0.0
Hines	20.0	12.5	-7.5	1	3	2	9.1	27.3	18.2
So. California	**16.0**	**21.7**	**5.7**	**1**	**5**	**4**	**1.8**	**9.5**	**7.7**
Loma Linda	16.7	16.7	0.0	0	0	0	0.0	0.0	0.0
Long Beach	42.9	33.3	-9.6	1	3	2	6.7	20.0	13.3
W. Los Angeles	0.0	25.0	25.0	0	0	0	0.0	2.1	2.1
Los Angeles-IOC	NA	NA	NA	NA	NA	NA	NA	NA	NA
San Diego	14.3	0.0	-14.3	0	0	0	0.0	0.0	0.0
Sepulveda	0.0	25.0	25.0	0	2	2	0.0	17.5	17.5
No. California	**27.6**	**19.4**	**-8.2**	**4**	**1**	**-3**	**11.0**	**2.9**	**-8.1**
Livermore	25.0	25.0	0.0	0	0	0	0.0	0.0	0.0
Martinez	50.0	75.0	25.0	0	1	1	0.0	16.7	16.7
Palo Alto	22.2	5.3	-16.9	3	0	-3	12.5	0.0	-12.5
San Francisco	33.3	25.0	-8.3	1	0	-1	25.0	0.0	-25.0

Veterans Administration
Department of Medicine and Surgery
Washington, DC 20420

CIRCULAR 10-87-126
November 9, 1987

TO: Regional Directors; Medical District Directors; Directors, VA Medical Center Activities; Independent Outpatient Clinics (00/11/05)

SUBJ: 1987 Survey of Health Occupational Staff (RCS 10-0787)

1. PURPOSE: The purpose of this circular is to collect data to assess recruitment and retention trends among several VA health occupations: Dental Assistant, Diagnostic Radiologic Technician/Technologist, Occupational Therapist, Nuclear Medicine Technician/Technologist, Pharmacist, Physical Therapist, Certified/Registered Respiratory Therapist, Registered Nurse, Licensed Practical/Vocational Nurse, and Nursing Assistant. The data obtained will be used for planning and other purposes by Agency officials in responding to the Department's health care personnel needs. This circular is a temporary issue and will not be incorporated into permanent publications.

2. POLICY: Objective and reliable information regarding nationwide staffing situations is essential for Agency officials to address recruitment and retention issues. The Survey of Health Occupational Staff is a critical instrument for collecting this information.

3. BACKGROUND:

a. Last year a Department-wide survey was conducted in accordance with DM&S Circular 10-86-134, dated December 5, 1986. This survey was a first-time effort to gather comprehensive staffing data for planning purposes. Since staffing situations for some occupations are changing frequently and agency planners need accurate, timely information, it was decided to gather information for FY 87 in order to evaluate trends. The FY 87 survey incorporates recommendations of program and management officials in VA Central Office, facility officials, the Personnel Officers Advisory Council, and the DM&S Task Force on Recruitment and Retention of Non-Physician Health Care Workers.

b. While the basic survey format remains the same, some questions have been clarified; additional special salary rate and part-time employment information is being requested; and occupations with less than 250 VA employees (Dental Hygienist, Therapeutic Radiologic Technician/Technologist, Echocardiograph Technician, Ophthalmologist Technician and Pulmonary Function Technician) have been deleted from survey coverage. Data from the survey will be incorporated into a report to provide an analysis of staffing situations and the factors that affect them.

4. ACTION:

a. Data for the survey will be submitted on VA Form 10-20848, which is Attachment A to this Circular. A separate copy of the form will be used for each of the covered occupations. Additional copies of the forms should be obtained through local reproduction. Every facility will provide data for each of the identified occupations, even if a facility has no authorized position in a particular occupation. Facilities will be provided summary information about the results of the survey.

b. The Medical Center Director will designate a responsible official to serve as the facility's overall survey coordinator. The Chief of Staff and Personnel Officer should participate in completing the survey, since input from both of their offices is essential to ensure that the data reflects an accurate and unified assessment of the facility's staffing situation for each occupation. These officials are encouraged to consult with the appropriate service chiefs or other supervisory officials to assure that information is as complete as possible. The instructions in Attachment B for completing the survey forms should be carefully followed to assure that all items are correctly completed. Each form should be signed in the space(s) provided at the end by the person(s) completing it. In the event that questions arise concerning the data on a form, the person(s) signing the form may be contacted.

c. Facility directors should certify on transmittal letters that all data provided is accurate and official. Completed survey forms and certification statements should be forwarded to the Recruitment and Examining Division (054E) by December 11, 1987. Questions concerning this Circular should be referred to Bernie Palmer or Terry Young, FTS 373-3257.

5. REFERENCE: DM&S Circular 10-87-60.

6. RESCISSION: This DM&S Circular will expire December 11, 1987.

7. FOLLOW-UP RESPONSIBILITY: Director, Office of Personnel and Labor Relations (054E).

John A Gronvall, M.D.

JOHN A. GRONVALL, M.D.
Chief Medical Director

Attachments

Attachment A

CIRCULAR 10-87-126

1987 SURVEY OF HEALTH OCCUPATIONAL STAFF
(RCS 10-0787)

Facility No.

2	3	4

1. Enter the code of the occupation for which this form is being completed:

1 = Dental Assistant
2 = Diagnostic Radiologic Technician/Technologist
3 = Occupational Therapist
4 = Nuclear Medicine Technician/Technologist
5 = Pharmacist
6 = Physical Therapist
7 = Certified/Registered Respiratory Therapist
8 = RN
9 = LPN/LVN
10 = Nursing Assistant

5	6

2. (a1) Number of staff on rolls as of September 30, 1987: Full-time Permanent (FTP) employees ....

7	8	9	10

(a2) Full-time Temporary (FTT) employees ....

11	12	13	14

(a3) Part-time (Temporary and Permanent) employees ....

15	16	17	18	19	20	21
—				•		

(b) Number of authorized FTEE as of September 30, 1987

22	23	24	25	26	27	28
				•		

(c) Number of full-time staff gains during FY 87 .....

29	30	31	32

(d) Number of part-time staff gains during FY 87 .....

33	34	35	36	37	38	39
				•		

(e) Number of full-time staff losses during FY 87 ...

40	41	42	43

(f) Number of part-time staff losses during FY 87 ....

44	45	46	47	48	49	50
				•		

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OCT 1987

Facility No. ______
Occupation ______

3. Are sufficient funding and ceiling available to provide authorized staffing level if candidates are available?

1 = Yes
2 = No

51
☐

4. (a) Did this occupation lose any authorized FTEE in FY 87 to other occupations because of your difficulty in recruiting applicants?

1 = Yes
2 = No

52
☐

53 54 55 56 57 58 5

(b) How many? .... ☐ ☐ ☐ ☐ ☐. ☐ ☐

(c) Did this occupation lose any authorized FTEE in FY 87 due to other reasons?

1 = Yes
2 = No

60
☐

(d) How many were lost due to the following reasons?

61 62 63 64 65 66 6

(1) Expansion of another service .... ☐ ☐ ☐ ☐ ☐. ☐ ☐

68 69 70 71 72 73 74

(2) Program or workload reduction .... ☐ ☐ ☐ ☐ ☐. ☐ ☐

75 76 77 78 79 80 81

(3) Budget reduction .... ☐ ☐ ☐ ☐ ☐. ☐ ☐

82 83 84 85 86 87 8

(4) Other reasons (please specify in block #22) .... ☐ ☐ ☐ ☐ ☐. ☐ ☐

5. (a) What is the average length of time that positions remain vacant for this category?

1 = No vacancy problem during FY 87
2 = Up to 3 months
3 = 3 to 6 months
4 = 6 to 12 months
5 = Over one year

89
☐

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Facility No. _______
Occupation _______

5. (b) Did the total number of vacancies adversely affect operations?

1 = No
2 = Yes, minimally
3 = Yes, moderately
4 = Yes, severely

90

(c) NURSING ONLY - Were the losses distributed throughout the service or was there a concentration of losses in a particular unit?

1 = Losses were not a problem during FY 87
2 = Distributed throughout service
3 = Concentrated in a particular unit (please specify in block #22)
4 = Both #2 and #3

91

6. How many of the FTEE losses between October 1, 1986 and September 30, 1987 left for the following reasons?

(a) Higher pay for the same assignment level ....

92	93	94	95	96	97	98
				•		

(b) Higher level position with higher pay ....

99	100	101	102	103	104	105
				•		

(c) Higher level position without higher pay ....

106	107	108	109	110	111	112
				•		

(d) Same level position without higher pay ....

113	114	115	116	117	118	119
				•		

(e) Same pay but better fringe benefits ....

120	121	122	123	124	125	126
				•		

(f) Educational reasons ....

127	128	129	130	131	132	13
				•		

(g) Private practice ....

134	135	136	137	138	139	140
				•		

(h) Family reasons ....

141	142	143	144	145	146	147
				•		

(continued on next page)

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Facility No. _______
Occupation _______

	148	149	150	151	152	153	154
6. (i) Different type of patient care environment					.		
	155	156	157	158	159	160	161
(j) Relocation					.		
	162	163	164	165	166	167	168
(k) Retirement					.		
	169	170	171	172	173	174	175
(l) Involuntary separation					.		
	176	177	178	179	180	181	182
(m) Transfer to another VA facility					.		
	183	184	185	186	187	188	189
(n) Changes occurring in Federal employment (e.g., retirement coverage, benefits, etc.)					.		
	190	191	192	193	194	195	196
(o) Workload					.		
	197	198	199	200	201	202	203
(p) Dissatisfaction with rotating tours					.		
	204	205	206	207	208	209	210
(q) Dissatisfaction over the lack of weekends off					.		
	211	212	213	214	215	216	217
(r) Other (please specify in block #22)					.		

7. How many of the PTEE gains between October 1, 1986 and September 30, 1987 were hired from the following situations?

	218	219	220	221	222	223	224
(a) Other VA facility					.		
	225	226	227	228	229	230	231
(b) Non-VA Federal medical facility					.		
	232	233	234	235	236	237	238
(c) Private sector medical facility					.		

(continued on next page)

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Facility No. _______
Occupation _______

7. (d) Other medical-related employment (private practice, consultant, etc.) ....
239 240 241 242 243 244 24

(e) Recent graduate ....
246 247 248 249 250 251 25

(f) Non-medical employment ....
253 254 255 256 257 258 25

(g) Military service ....
260 261 262 263 264 265 26

(h) Unemployment ....
267 268 269 270 271 272 27

(i) NURSING ONLY - VA Scholarship recipient (service obligation) ....
274 275 276 277 278 279 28

(j) Other (please specify in block #22) ....
281 282 283 284 285 286 2

8. In your estimation, how comparable to VA pay is the average pay for employees on the rolls at the journeyman level at non-Federal medical facilities in your area?

1 = 20% or more per annum higher at other facilities
2 = Up to 20% per annum higher at other facilities
3 = Comparable
4 = Up to 20% per annum lower at other facilities
5 = 20% or more per annum lower at other facilities
6 = Don't know

288

9. Do any of the following pay practices for this occupation at other medical facilities in your area put the VA at an advantage or at a disadvantage?

1 = Puts VA at an Advantage
2 = Puts VA at a Disadvantage
3 = Neither 1 or 2

289

(a) Larger or more frequent periodic pay increases ....

(continued on next page)

Facility No. ________
Occupation ________

290
9. (b) Higher rates of overtime pay .... ☐

291
(c) More generous holiday pay .... ☐

292
(d) Saturday premium pay .... ☐

293
(e) Higher Sunday premium pay .... ☐

294
(f) On-call pay .... ☐

295
(g) Other (please specify in block #22) .... ☐

10. Do any of the following "fringe" benefits or packages for this occupation at other medical facilities put the VA at an advantage or at a disadvantage?

1 = Puts VA at an Advantage
2 = Puts VA at a Disadvantage
3 = Neither 1 or 2

296
(a) Health insurance .... ☐

297
(b) Tuition assistance .... ☐

298
(c) Incentive award program .... ☐

299
(d) Retirement program .... ☐

300
(e) Day care for children .... ☐

(continued on next page)

Facility No. _______
Occupation _______

10. (f) Vacation or personal leave time .... 301 ☐

(g) Sick leave .... 302 ☐

(h) Straight shift assignments .... 303 ☐

(i) Policies on outside employment and earnings .... 304 ☐

(j) Other (please specify in block #22) .... 305 ☐

11. (a) Has the use of part-time appointments been necessary to help meet staffing needs (e.g., in the absence of full-time applicants) for this occupation?

1 = Yes
2 = No
306 ☐

(b) Have alternative methods of staffing (e.g., additional shifts, contracting out, etc.) been necessary to provide coverage?

1 = Yes
2 = No
307 ☐

12. (a) Have you used individuals from other occupations to meet the staffing needs of this function?

1 = Yes
2 = No
308 ☐

(b) Fill in the codes of the other occupations and the number used.

Type of other occupation (See Attachment B for codes). 309 ☐ 310 ☐

Number used .... 311 ☐ 312 ☐ 313 ☐ 314 ☐

(continued on next page)

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Facility No. ______
Occupation ______

12. Type of other occupation (See Attachment B for codes). 315 316 ☐☐

Number used .... 317 318 319 320 ☐☐☐☐

Type of other occupation (See Attachment B for codes). 321 322 ☐☐

Number used .... 323 324 325 326 ☐☐☐☐

13. (a) Are you affiliated with educational institutions to provide training in this field?

1 = Yes
2 = No

327 ☐

(b) How many students were trained in this occupation at your facility during FY 87? .... 328 329 330 331 ☐☐☐☐

(c) How many former students trained in this occupation in the VA during FY 83 to FY 87 were hired at your facility during FY 87? .... 332 333 334 335 ☐☐☐☐

14. How frequently were the following recruitment techniques utilized during FY 87, and how many applications and hires were received from each source? (0, 1, 2, 3, etc.)

	Number of Times Used	Number of Applications	Number of Hires
(a) Newspaper ads	336 337 338 ☐☐☐	339 340 341 ☐☐☐	342 343 344 ☐☐☐
(b) Professional journals	345 346 347 ☐☐☐	348 349 350 ☐☐☐	351 352 35 ☐☐☐
(c) College visits	354 355 356 ☐☐☐	357 358 359 ☐☐☐	360 361 362 ☐☐☐
(d) High school visits	363 364 365 ☐☐☐	366 367 368 ☐☐☐	369 370 371 ☐☐☐

(continued on next page)

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Facility No. _______
Occupation _______

	Number of Times Used	Number of Applications	Number of Hires
14. (e) Pamphlets	372 373 374	375 376 377	378 379 380
(f) Job fairs	381 382 383	384 385 386	387 388 389
(g) Open house	390 391 392	393 394 395	396 397 398
(h) Professional meetings or conferences	399 400 401	402 403 404	405 406 407
(i) Professional associations	408 409 410	411 412 413	414 415 416
(j) Health profession programs	417 418 419	420 421 422	423 424 425
(k) Other (excluding OPM)	426 427 428	429 430 431	432 433 434

15. How much money did your facility spend on the recruitment activities cited in question #14 for this occupation during FY 87?

1 = None
2 = $ 1 to $ 100
3 = $ 100 to $ 500
4 = $ 500 to $1,000
5 = $1,000 to $5,000
6 = Over $5,000

435 ☐

16. How many applications were received during FY 87 from OPM and VA Special Examining Units? 436 437 438 439

17. Of the total applications received, how many persons

(a) Were subsequently employed by your facility? 440 441 442 443

(continued on next page)

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Facility No. ________
Occupation ________

17. (b)	Declined offer because of salary reasons?	444 445 446 447
(c)	Declined offer because of dissatisfaction with the nature of duties?	448 449 450 451
(d)	Declined offer because of physical environment?	452 453 454 455
(e)	Declined offer because of dissatisfaction with rotating tours?	456 457 458 459
(f)	Declined offer because of dissatisfaction over lack of weekends off?	460 461 462 463
(g)	Declined offer because of delays in the recruitment process?	464 465 466 467
(h)	Declined offer because facility could not pay relocation expenses?	468 469 470 471
(i)	Declined offer because of other reasons?	472 473 474 475
(j)	Did not meet qualifications standards?	476 477 478 479
(k)	Were not selected for other reasons? (please specify in block #22)	480 481 482 483

18. What percentage of qualified and available candidates during FY 87 were:

(a)	Highly satisfactory?	484 485 486
(b)	Satisfactory?	487 488 489

(continued on next page)

Facility No. _______
Occupation _______

18. (c) Minimally acceptable? .... 490 ☐ 491 ☐ 492 ☐

(d) Unacceptable? .... 493 ☐ 494 ☐ 495 ☐

19. (a) Did your facility have special salary rates for this occupation (either above-minimum or rate ranges) in effect on October 1, 1986?

1 = Yes
2 = No

496 ☐

(b) On September 30, 1987?

1 = Yes
2 = No

497 ☐

(c) Indicate which changes took place in the special salary rates. (More than one situation may apply.)

1 = Applies
2 = Does not apply

(1) Rates in effect were unchanged throughout FY 87 .. 498 ☐

(2) New rates took effect in FY 87 .... 499 ☐

(3) Rates were increased in FY 87 .... 500 ☐

(4) Rates were decreased in FY 87 .... 501 ☐

(5) Rates were terminated in FY 87 (either because of the January 4, 1987 general increase or for other reasons).................................. 502 ☐

(6) A request for new or increased rates was under active consideration at the end of the FY 87, either at your facility or in VACO or at OPM ..... 503 ☐

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Facility No. ________
Occupation ________

19. (d) If special rates were in effect at the end of FY 87, have they been helpful in recruiting employees?

1 = Yes
2 = Somewhat
3 = No
4 = Too soon to determine
5 = Not applicable (Special rates were not in effect)

504 ☐

(e) If special rates were in effect at the end of FY 87, have they been helpful in retaining employees on your rolls?

1 = Yes
2 = Somewhat
3 = No
4 = Too soon to determine
5 = Not applicable (Special rates were not in effect)

505 ☐

(f) If special rates have not been requested or if an increase was not requested during FY 87, to what extent was that decision affected by the following considerations?

1 = None
2 = Partly
3 = Completely
4 = Not applicable

(1) Budget impact (Cost to facility)? .... 506 ☐

(2) Possible adverse impact on other occupations? .... 507 ☐

(3) Staffing situation did not support request? ...... 508 ☐

(4) Salary survey data did not support request? ...... 509 ☐

(5) Preferred to make individual appointments above the minimum rate, under MP-5, Part II, Chapter 3, Section F? .... 510 ☐

(6) Other? (please specify in block #22) .... 511 ☐

(continued on next page)

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Facility No. ______
Occupation ______

19. (g) Number of individual appointments above the minimum rate of the grade the facility director has approved during FY 87 for the occupation under MP-5, Part II, Chapter 3, Section F ....

512	513	514	515

20. How many times during FY 87 did your facility authorize payment of relocation expenses to recruit employees for this occupation?

(a) Intra-VA transfers ....

516	517	518

(b) Transfers from other Federal agencies ....

519	520	521

(c) New appointees ....

522	523	524

21. Name(s), title(s), and FTS phone number(s) of person(s) completing form. (NOTE: Please repeat this information in block #23 if you have comments.)

____

____

____

____

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Facility No. _______
Occupation _______

22. Any additional comments? (Please type. Attach additional sheets if necessary.)

23. Name(s), title(s), and FTS phone number(s) of person(s) completing form.

____

____

____

____

VA FORM 10-20848
OCT 1987

ATTACHMENT B

CODING INSTRUCTIONS FOR VA FORM 10-20848
1987 SURVEY OF HEALTH OCCUPATIONAL STAFF

General Instructions

Each item, especially the "Yes/No" responses, should be answered to ensure thorough and accurate information. The only exceptions are items marked "NURSING ONLY" (5(c) and 7(i)) which are to be left blank for all non-nursing occupations. Include Graduate Nurse Technicians as temporary employees in counts for RNs. Do not include interns, residents, or trainees in the counts for occupations.

Item — **Instructions**

Facility No.

Enter the facility's three digit number at the top of each of the pages as follows:
On page A-1, enter 1 digit in each of the 3 boxes.

Example:

6	4	1

On the remaining pages, write the 3 digits on the line next to "Facility No."

1; Occupation

In item 1, enter the code number of the occupation for which the form is being completed as follows:
For codes 1 through 9, enter the number in the right-most box.

Example:

	7

For code 10, enter 1 digit in each of the 2 boxes.

Example:

1	0

Then write the number at the top of the remaining pages in the blank line next to "Occupation."

2(a1)

Enter the number of full-time permanent employees on the rolls in the occupation designated in item 1. Include staff in both pay and non-pay statuses.

The number must be RIGHT-JUSTIFIED in the boxes provided, as in the following example.

Example: If there were 14 FTP employees, enter 1 in the third box and 4 in the right-most box. Leave the left-most boxes empty.

		1	4

2(a2)

Enter the number of full-time temporary employees. Include staff in both pay and non-pay statuses. Right-justify as described for item 2(a1). Remember to include Graduate Nurse Technicians in the count for RNs.

2(a3) Enter the number of FTEE of part-time permanent and part-time temporary employees in both pay and non-pay statuses as follows:

If this is a whole number, right-justify the answer in the four boxes before the decimal point.

Example:

	1	0	3	.		

If the number is fractional, such as 7.5, right-justify the whole part of the number before the decimal point and enter the fractional part after the decimal.
Remember to include Graduate Nurse Technicians in the count for RNs.

Example:

			7	.	5	

2(b) Enter authorized FTEE as described for whole or fractional numbers in item 2(a3). Authorized FTEE is the ceiling number allocated for staffing by the local position-management committee or top management.

2(c) Include hires and transfers of full-time employees and conversions from part-time to full-time as full-time gains. Do not count return to duty from LWOP status. Right-justify the number as in item 2(a1).

2(d) Include hires and transfers of part-time employees and conversions from full-time to part-time as part-time gains. Do not count return to duty from LWOP status. Enter the FTEE as in item 2(a3).

2(e) Include separations of full-time employees and conversions from full-time to part-time as full-time losses. Do not count losses to LWOP status. Right-justify the number as in item 2(a1).

2(f) Include separations of part-time employees and conversions from part-time to full-time as part-time losses. Do not count losses to LWOP status. Enter the FTEE as in item 2(a3).

4(a),4(c) Authorized FTEE is the ceiling number allocated for staffing by the local position-management committee or top management.

4(b) Enter the FTEE as described in item 2(a3).

4(d) Expansion of another service occurs when FTEE is taken away from one service and given to another one to meet staffing needs.
Program or workload reduction includes situations in which programs have been cut back or discontinued by management determination as well as situations when workload demands have decreased.
Budget reduction occurs when the funding or ceiling allocated to the facility is insufficient to continue facility staffing at prior or current levels.
Enter the number of FTEE as described in item 2(a3).

6(a)-6(r) Indicate NO MORE THAN 2 reasons for each loss.
If an individual left for multiple reasons, the FTEE should be included in the count of not more than two listed reasons, which are considered to be the major or most pertinent reasons.
Enter the number of FTEE as described in item 2(a3).

6(j) Relocation is defined as a change in geographic location which does not involve a transfer to another VA facility.

7(a)-7(j) Count the FTEE of each person gained for only 1 of the situations cited.
Enter the number of FTEE as described in item 2(a3).

9(a)-9(g), 10(a)-10(j) If there is a difference between the VA and other medical facilities, but the difference does not put the VA at an advantage or disadvantage, write 3 in the box.
If there is no difference between the VA and other facilities, also write in 3.

12(b) Right-justify the codes of the occupations which were substituted and the number of individuals in each occupation which were used. Fill in "0" if no other occupation was used.
If more than 3 different occupations were used, write the occupational code and number of individuals used in block #22.
Use the following list of codes:

1 = Cardiac Catheter Technician
2 = Certified/Registered Respiratory Therapist
3 = Corrective Therapist
4 = Dental Aid
5 = Dental Assistant
6 = Dental Hygienist
7 = Dental Lab Technician
8 = Diagnostic Radiologic Technician/Technologist
9 = Echocardiograph Technician
10 = Education Therapist
11 = Electrocardiograph Technician
12 = Expanded Function Dental Auxiliary
13 = Health Science Specialist
14 = Health Technician
15 = Heart-Lung Machine Technician
16 = Inhalation Therapist
17 = LPN/LVN
18 = Manual Arts Therapist
19 = Medical Machine Technician/Aid
20 = Medical Technician/Aid
21 = Nuclear Medicine Technician
22 = Nuclear Medicine Technologist
23 = Nursing Assistant
24 = Occupational Therapist
25 = Occupational Therapy Assistant/Aid
26 = Ophthalmologist Technician
27 = Pharmacist

(continued on next page)

28 = Pharmacist Technician
29 = Physical Therapist
30 = Physical Therapy Assistant/Aid
31 = Physician
32 = Psychologist
33 = Psychology Technician
34 = Pulmonary Function Technician
35 = Registered Nurse
36 = Social Worker
37 = Therapeutic Radiologic Technician/Technologist
38 = Therapy Assistant
39 = Ultrasound Technician
40 = Other (Do not include volunteers, students, interns or residents)

14(a)-14(l)	In the column labeled "Times Used," right-justify the number of times each technique was used. In the column labeled "Applications," right-justify the number of applications received from each source. In the column labeled "Hires," right-justify the number of hires received from each source.
16	Right-justify the number as described in item 2(a1).
17(a)-17(j)	Total applications are applications from OPM and all other sources. If an individual declined an offer for more than one of the reasons listed in 17(b)-17(h), count that person in the main reason only. Right-justify the answers as described in item 2(a1).
18(a)-18(d)	Right-justify the percentages as in item 2(a1). The sum of the four percentatges should total 100%.
19(g)	Write in the number of appointments made under 38 USC 4111(b) authority, generally known as the "Section F authority."
20(c)	New appointees include not only individuals when first appointed to Government service, but also individuals appointed after a break in service except that employees separated as a result of reduction in force or transfer of function should be counted as transferees.
21	Type or print the name and title of the persons at the facility who completed the form, and the FTS number at which they may be contacted.
22	Type comments as well as responses to questions requiring specifications of answers (4(d), 5(c), 6(r), 7(j), 9(g), 10(j), 17(j), and 19(f)) on page A-13. If more space is needed, attach additional sheets to the form. Write the facility number and occupation number at the top of each additional page.
23	If comments are provided, please repeat information provided in block #21. The comments section will be processed separately from the other data provided in the survey.

Question: 5. In response to my pre-hearing questions 11.A and 11.B, you also stated that an Action plan identifying a timetable for implementation of the recommendations of the Task Force on Recruitment and Retention is currently being formulated. Please provide a copy of this plan when it is completed.

Answer: A copy of the Action Plan will be forwarded to the Committee's Chief Counsel and Staff Director upon its completion.

WRITTEN QUESTIONS FROM SENATOR MATSUNAGA TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question 1: What analyses have you conducted with respect to potential sites of land for the proposed VA in Hawaii? What are the results of the analyses?

Answer: No specific site analyses have been performed with respect to potential sites for a VA hospital in Hawaii.

Question 2: What are the latest VA estimates of the funding necessary to proceed with the establishment of a VAMC? By this I mean the year-by-year schedule of costs for the planning/acquisition/design/construction activities outlined in the December 29, 1987 Western Region Implementation Plan for Hawaii.

Answer: Pending approval of a VA Medical Center in Hawaii, the proposed timetable and costs are unspecified.

Question: 3. If the VA were to adhere to the original FY93-94 completion date for the VAMC as recommended in the June 1987 Task Force report, what activities and associated costs would be required for FY89?

Answer: The draft report of the Hawaii Task Force was provided to the Committee prior to agency level review and any decisions being made. Therefore, the information in it should not be construed to form a basis for the VA's requirements in Hawaii. The VA will be forwarding a letter to the Committee that further addresses the draft report.

Question: 4. Please provide length-of-stay comparisons for types of treatment between Tripler Army Medical Center and private inpatient institutions in Hawaii. Between Tripler and private institutions nationwide. Also, please provide the rates for such services charged by Tripler and the private institutions in Hawaii/nationwide.

Answer: The following table contains comparisons of length of stay and per diem rates for Tripler Army Medical Center, private facilities in Hawaii, and private facilities nationwide:

Type of Facility	Average Length of Stay	Per Diem Rate
Tripler Army Medical Center	7 days (acute care) (14 days - veterans only)	*$410.00
Private Hospitals in Hawaii	6.8 days (acute care)	**Range of $221-960
Private Hospital Nationwide	7 days (acute care)	$499.19

* The VA-DoD sharing arrangement is in the process of being renegotiated and the per diem rate is expected to be higher. Data related to Tripler Army Medical Center were obtained from staff at Tripler in June 1987.

** Data are from the State of Hawaii Data Book by the Department of Planning and Economic Development (see attached).

Attachment

County	Facility	# beds+	Per Diem Chge	% Adm.	Ownership
Honolulu/ Oahu	Castle	156	255/270/835	9	Non-profit
	Hawaii State	220	133	4	State
	Kahi Mohala	88	330/435	6	Non-profit
	*Kaiser	142	325/820	0#	Non-profit
	*Kuakini	742	244/260/777/790	1	"
	*Leahi	232	215/119/129	0#	State
	*Queen's	427	432 ++	7	Non-profit
	*Reh. of Pac.	84	226/250	0#	"
	*St. Francis	398	221/262/802	1	"
	*Straub	159	326/960	0#	Proprietary
	*Tripler	555	410 ++	53	U.S. Gov't
Hawaii	*Hilo	440	225/237/715	7	State
	Honokaa	62	211/222/	0#	"
	*Kona	119	231/237/715	1	"
Maui	*Maui Mem.	145	223/296/715	4	"
Kauai	*Kauai Vet.	82	379/385/929/1413	0#	"
	*Wilcox Mem.	224	260/760	2	"
	S Manelona	76	225/237	2	"
Molokai	Molokai Gen.	27	507/554/932/939	0.5	"

Note: * Medical center visited by Hawaii Task Force Team
+ Includes SNF or ECF beds
Per diem rates are semi-private or ward, private and ICU/CCU
++ Contract rate or all inclusive per diem rate
# % of admission less than 0.4

Question: 5. What are the costs and schedules associated with the implementation of each of the short- and medium-term Task Force Report/Western Region Implementation Plan initiatives in FY 88? in FY 89? and beyond?

Answer: The Western Region Hawaii Implementation Plan does include a detailed summary of costs and schedules associated with the recommendations from the Hawaii Task Force Report. These implementation requirements are referenced in Attachment A of the Implementation Plan (pages A-1 through A-14). They are separated according to Neighbor Island initiatives and Oahu (Honolulu) initiatives. A summary of the schedules and costs are shown below.

Initiative	Planned Implementation Year	Total Estimated Recurring Cost*
A. Neighbor Island Programs:		
1. VA Primary Care Clinics:		
a. DM&S Staff Visits	FY 88	$ 826,212
b. RCS Staff Visits	FY 88	569,982
2. ADP Support	FY 88	45,500
3. Fee Medical Outpatient Visits	Ongoing	275,546
4. Contract Hospitalization	Ongoing	1,249,680
5. Beneficiary Travel	Ongoing	230,000
6. Contract Nursing Home Care	Ongoing	496,400
B. Oahu Programs:		
1. Med. Admin. Service Enhancements	FY 88	611,090
2. Pharmacy Service Enhancements	FY 88	566,924
3. Fee Prescription Pharmacy	FY 88	160,885
4. Contract Hospitalization	Ongoing	12,045,365
5. Contract Residential Care	Ongoing	169,090
6. Contract Nursing Home Care	Ongoing	992,800

* The total estimated recurring costs are based on the estimated year of full implementation of each initiative (between FY 88 and FY 94). These costs are in the base.

Question: 6. What percentage of medical and psychiatric hospitalizations in Hawaii are drug and alcohol related? Does the VA feel that enough emphasis has been placed on drug and alcohol counseling and rehabilitation in current and future plans for Hawaii?

Answer: Data presently are not available which indicate the percentage of medical and psychiatric hospitalizations in Hawaii which are alcohol or drug related. Therefore, the VA does not have data upon which to base a judgment about proper emphasis.

Question: 7. Has there been a recent deemphasis on the mental health care aspect of the proposed neighbor island initiatives as opposed to a medical care aspect? If so, why? Are any psychologists included in VA plans for improving neighbor island health care? If not, why not?

Answer: There has not been a deemphasis on planned mental health services for the neighbor island primary care clinics.

Question: 8A. Please provide a detailed justification for VA's rejection of my request last year that Asian and Polynesian veterans be included in or as a supplement to the ongoing National Vietnam Veterans Readjustment Study.

Answer: Careful examination of the sampling protocol used for the National Vietnam Veteran Readjustment Study indicates that veterans of Asian and Polynesian ethnicity have been included in the study in proportion to their representation in the military during the Vietnam era. Interviews have already been recorded in that state by a survey worker who is a resident of Hawaii. While their numbers are expected to be too few to yield useful information about these specific sub-populations, they will contribute to the study's overall conclusions. At present, only Black, Hispanic and female veterans have been oversampled, as specified in P.L. 98-160, to develop specific information about minority veterans.

The Veterans Administration has explored the possibility of oversampling for veterans of Hawaiian, Polynesian, and Asian ancestry in the national study and has concluded that it is neither technically possible nor economically feasible. This would also cause an additional delay in the reporting of findings from the National Vietnam Veterans Readjustment Study. However, the use of a somewhat different sampling technique in conjunction with the major assessment components of the NVVRS would yield comparable results for the State of Hawaii in a supplemental research study. An estimate of the cost for such an effort would be between $500,000 and $1 million.

In light of the cost of such a study, our assessment is that judgment should be reserved, until the completion of the present National Vietnam Veterans Study, as to the adequacy of that study for assessing the needs of Vietnam era veterans in Hawaii. At that time, this matter may be reviewed further. In general, our current prediction is that the National Vietnam Veterans Study will provide an adequate portrayal of the readjustment of Vietnam veterans in Hawaii.

Question: 8B. Is it possible for the VA to assess the issue of "suppressed demand" or the quality of care afforded Asian and Polynesian veterans in Hawaii without a basic database on Asian Polynesian veterans?

Answer: The concept of "suppressed demand" is problematic. It is only one of many possible inferences that can be made to help explain differences in usage across the country. The absence of a data base of Asian Polynesian veterans may be a complicating factor, but it is only one of many.

Question: 9. What is the VA doing to pursue affiliation with the University of Hawaii? Specifically, what is VA thinking with respect to the generous offer of the university (testimony delivered at the April 14, 1987, Senate Veterans' Affairs Committee field hearing in Honolulu on behalf of the Vice President for Academic Affairs, Dr. Anthony Marsella) to establish and operate jointly three mini-centers in geriatric, mental health, and rehabilitation engineering?

Answer: Currently the VA is affiliated with the University of Hawaii for programs in medicine (residents and students), psychology and social work. A request to establish a Geriatric Research Field Station in Hawaii in collaboration with the National Institute on Aging is currently being reviewed and discussed with NIA.

Question: 10. Has the VA fully considered the potential of a UH research/teaching affiliation with a proposed VAMC in the agency's evaluation of possible hospital sites?

Answer: The VA is committed to having a strong University of Hawaii research and teaching affiliation. The VA has not endorsed the CMD recommendation of a VAMC in Hawaii. If the decision is made to recommend that a VAMC be built, many variables will be taken into account as various potential sites are considered. Geographic location in relation to residential settings, transportation, cost of land and construction, as well as the proximity to the medical school and tertiary care services are some of the primary considerations.

Question: 11. Has either the ACMD for Academic Affairs or the ACMD for Research and Development ever visited Hawaii? If not, could the VA provide assurances that they will be given the opportunity to travel to Hawaii in the near future to evaluate firsthand the potential for increased VA research in the state?

Answer: Neither the ACMD for Academic Affairs nor the ACMD for Research and Development have visited Hawaii in recent years. The research and medical school affiliation initiatives would require participation by these two offices to include on-site evaluations of current programs both federal and nonfederal.

WRITTEN QUESTIONS FROM SENATOR MURKOWSKI TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

MEDICAL CARE BUDGET

Question: 1. What is the status of the VA's proposed outpatient clinic in Anchorage? Has the lease/build study been completed? If so, what did it conclude? If not, when will it be completed? I noted that the VA did request some funds for this outpatient clinic. How much was requested and how did the VA arrive at that figure? When can veterans who reside in Anchorage expect to begin to receive outpatient services by a VA physician?

Answer: Program planning and space requirements analyses for the Anchorage OPC are proceeding. An evaluation clinic, staffed by two Internists, began operating at the VA Combined Clinic (Mental Hygiene and Alcohol Treatment) during the Fall of 1987. Authority to lease an additional 1500 square feet to relieve immediate pressures on current operations specifically in pharmacy and examination room capacity, has been delegated to the facility. Further, relief in the amount of 2500 square feet should be authorized for leasing before the end of this fiscal year. Funds requested in FY 1989 for Anchorage leases include $194,000 for this interim clinic.

The full service clinic is being planned in two phases. It is estimated that the first phase of the proposal, which will provide approximately 19,000 additional square feet, could be available for occupancy as early as December 1989. The second and final phase will incorporate DVB operations and have the capacity to serve 40,000 to 45,000 staff visits, is targeted for 1991. The lease/build study is continuing and will involve a thorough market analysis of the Anchorage area before a final determination is made. Completion of the study is anticipated by the end of the third quarter of FY 89.

Question: 2. How much will the VA spend in fiscal year 1988 on beneficiary travel?

Answer: 2. The VA will spend $55,396,000 in fiscal year 1988 on beneficiary travel.

Question: 3. How much does the VA propose to spend in fiscal year 1989 on beneficiary travel?

Answer: 3. The VA will spend $57,603,000 in fiscal year 1989 on beneficiary travel.

Question: 4. Does the VA receive a significant number of complaints as a result of the reductions in the beneficiary travel program implemented last year?

Answer: Negative reaction to the reductions in our beneficiary travel program has been surprisingly light both in Central Office as well as in our field facilities from the date of implementation on April 23, 1987.

Question: 5A. How much fiscal year 1988 money is left for the Homeless Chronically Mentally Ill program?

Answer: For FY 1988, $12,932,000 has been identified for the Homeless Chronically Mentally Ill (HCMI) Veterans Program. To date, $7,914,725 have been distributed to the 43 HCMI sites and the National Evaluation Staff which is located at VAMC West Haven, Connecticut. The funds have been distributed at follows:

- $3,559,655 to support 111.8 FTEE for the outreach and case management component of the program
- $4,355,070 to support contract care and other costs associated with the program such as communication and transportation costs.

The remaining $5,017,275 will be distributed to the HCMI sites to support contract care and other costs for the third and fourth quarters of FY 1988.

Question: 5B. How much has the VA requested in fiscal year 1989 for this program?

Answer: The VA requested $13,252,000, which includes funds to cover uncontrollable inflation and salary costs in fiscal year 1989 to maintain the 43 HCMI programs at current operating levels.

Question: 5C. Please comment on the effectiveness of this program.

Answer: From preliminary data collected on the first seven months of the program's operation, we believe the program to be both therapeutically and cost effective. The VA outreach staff have contacted over 10,000 people considered to be candidates for the HCMI program. Of this number, only 1% were not veterans. Formal assessments have been conducted for 7,800 homeless veterans and 86% presented one or more symptoms of mental illness. Their average monthly income is $207 and 50% of them have been homeless for more than six months. The 43 HCMI programs have contracted with 136 community-based psychiatric residential treatment facilities and 1,000 veterans have been placed in these facilities for care and rehabilitation at an average cost of $32.00 per day. From the preliminary data, we know that the outreach staff are contacting and providing care for the target population of veterans who are homeless and chronically mentally ill.

A follow up evaluation of the HCMI program is currently being conducted at 10 of the 43 HCMI sites. Both veterans who have completed the program as well as those who have not will be contacted at 3, 6 and 9 month intervals to assess medical, psychiatric, social and economic status. The results of this follow up evaluation will allow the VA to better determine both the therapeutic benefits and the cost effectiveness of the HCMI program.

Question: 6. The VA proposes 33 less staff for outpatient services despite the growing demand for outpatient care. Why is the VA proposing such a decrease?

Answer: 6. The net decrease is the result of staff savings associated with projected productivity increases offset by increase staff for activation of newly constructed outpatient facilities.

Question: 7. The VA proposes to add 513 FTEE for community nursing. What do those people do?

Answer: 7. The VA did not propose any increases in FTEE for the community nursing care program.

Question: 8. Why were Baltimore, Durham, and San Diego chosen for funding in fiscal year 1989 for the AIDS clinics?

Answer: Baltimore, Durham and San Diego were chosen for funding as HIV Research Centers, not AIDS clinics. They were chosen in competition with seven other VA Medical Centers on the basis of their scientific strengths and their ability to contribute to understanding and developing definitive therapy for HIV infection. The review and selection of Baltimore, Durham and San Diego was carried out by a group of the world's leading scientific experts in HIV infection.

Question: 9. On page 7-11 the VA proposes about $2 million for Agent Orange research. What specific projects will those funds be used for?

Answer: The approximately $2 million in Medical and Prosthetic Research funding identified in FY 1989 for Agent Orange Research includes funding to support the following activities/research:

- Vietnam Veterans Mortality Update
- Cohort Mortality Study of Marine Vietnam Veterans
- Retrospective Study of Dioxins and Furans in Adipose Tissue
- Case-Control Study of Non-Hodgkin's Lymphoma
- Staffing Support (Personnel Services and other) for Office of Environmental Epidemiology to effect the above studies
- Health Surveillance of Vietnam Era Veterans
- Literature Review of Worldwide Scientific Literature on Herbicides, Including Phenoxy Herbicides and Associated Dioxins
- Investigator Initiated Animal-Related Research

Question: 10. The VA Budget proposes funding for the following DHCP applications in fiscal year 1989: Decentralized Medical Management System (DMMS) and nursing. However, I understand that another year of testing is necessary before the VA determines which DMMS application it will use and that there are serious problems in the development of the nursing application. What is the status of these two applications?

Answer: The development of the nursing application is proceeding on schedule. A new version is in verification and will be released soon with additional functionality. The only difficulty being experienced by sites that are running the application in test mode is the lack of equipment, and that is why we are requesting the funding proposed in the 1989 budget.

The nursing package, like DMMS, when complete, will use a combination of commercial and in-house software. We are currently testing three commercial nurse scheduling packages and plan to include an interfaced commercial package as a component of the DHCP application.

Two DMMS pilots, which use DHCP operational data, were evaluated in early FY 1988. Since the commercial DMMS pilot running at Brockton/West Roxbury VAMC provides more capabilities than the in-house version running at Hines VAMC, we are expanding the commercial test to two more sites. However, due to the current one-site contractual limitation, it is necessary to release a new competitive DMMS RFP for multiple sites. A new contract will be awarded in FY 1988 for the three test sites with an option to extend to all VAMCs at the discretion of the VA and contingent on the availability of funds. In FY 1989, we will evaluate the experience at the test sites and decide whether to exercise the option to purchase the commercial system for all hospitals. We also expect to purchase hardware for the required DMMS/DHCP feeder systems in FY 1989.

Question: 11. The VA proposes to save $4,700,000 in readjustment counseling. Specifically, how will that savings be achieved?

Answer: There will be changes in staff levels at some centers based on caseload and relocation of the readjustment counseling operations at some sites from a community-based Vet Center to a VA medical facility. In addition, the contracts portion of the program will be gradually decreased.

Question: 12. How much will the VA bill and collect for "means test" and third party reimbursement during fiscal year 1989?

Answer: 12. The VA has estimated that $135,000,000 will be collected for the means test and third party reimbursements during fiscal year 1989.

Question: 13. The budget documents discuss the one-day dialysis treatment reclassification. Are there any other procedures which will be reclassified in the future? What impact will this change have on the RAM?

Answer: At this time, the Department of Medicine and Surgery is not considering reclassifying any other procedures in the future which will have any impact on the RAM. The one-day dialysis treatment reclassification will not impact RAM because it is currently not subject to the application of the models.

Question: 14. Under Public Law 99-576, Medicare/Medicaid Reimbursement rates would be applicable for VA contract care. Has the VA benefited by this legislation change during the fiscal year 1988?

Answer: Yes. Once regulations have been implemented, the VA will expect to save $36.9 million per year. One-half of this savings was taken in 1988 with the full impact of the savings taken in 1989.

Question: 15. The VA estimates that savings of $3.1 million will be achieved through standardization. Specifically, how will this savings be achieved?

Answer: A 1989 Budget reduction for DM&S of $3.1 million was made regarding anticipated annual savings identified by the Coopers and Lybrand study. To meet this goal, various efforts have been initiated through coordination between the Office of Procurement and Supply and the Department of Medicine and Surgery. For example:

o A competitively awarded contract for IV solutions and administration sets is expected to be awarded and fully implemented by Oct. 1, 1988.

  - Items included in the solicitation have an annual value of $25 million.

  - Savings of 10 to 30% are anticipated to be realized.

o Bed pad linens, specimen cups, wash basins, and povidone iodine applicators have been approved for standardization.

  - Projected cost savings for these items is $1,620,000. This projection includes savings realized through depot stock and anticipated savings resulting from reducing the number of similar line items procured through the standardization program.

o VA is actively pursuing analyses of a variety of commodities for potential standardization.

o Further program efforts include standardization of 90 items in 1988.

Question: 16. On page 6-3 of volume II, the VA suggests that the cap of employment levels should be eliminated. What changes would the VA make if no such cap existed?

Answer: To effectively provide patient care, a balance of employment among direct care, administrative and engineering/building management support is needed. To artificially "cap" one of these areas and, at the same time, maintain total employment, results in at least two, if not all categories of employment being controlled at levels that are "unnatural". The proposed appropriation language change requests that the specific support areas within the total employment not be constrained. In meeting the VA's mission, individual facility directors have an incentive to maximize output within their total assigned employment ceiling under the Resource Allocation Model (RAM). This approach results in a "natural" balancing of direct, administrative and engineering employment within total available FTEE.

Within the total 1989 FTEE request of 192,358, a balanced level of administrative FTEE is estimated to be 37,354. If total employment is changed in 1989, the administrative portion should change to maintain this balance.

Question: 17. The VA proposes to increase funding for extended care programs. Specially, how will that money be utilized? How much will be targeted towards noninstitutional care programs?

Answer: 17. The Va has requested an increase of $35,194,000 for extended care programs, which will be utilized as follows:

VA nursing home care	$22,042,000
Community nursing home care	7,302,000
State home programs	5,850,000

Question: 18. On page 5-3 of Volume II of the VA budget, the VA indicates its intent to propose an increase in the per diem rate for the State Veterans Home Program. What is the total funding increase proposed for this increase and what will the per diem increase be for hospital, nursing home, and domiciliary care?

Answer: The total funding increase is estimated at $18,999,000.

The increase in per diem is as follows:

	Old Rate	New Rate	Change
Nursing Home Care	17.05	20.48	$+3.43
Domiciliary Care	7.30	10.67	+3.37
Hospital Care	15.25	20.48	+5.23

Question: 19. Specifically, how is the money in the general post fund used?

Answer: The general post fund is provided to VA medical facilities to supplement appropriated funds and is used for religious and recreational activities. Necessary support services, such as the physical maintenance of chapels and gymnasiums, are provided to these activities through appropriated funds.

There are two classifications used to refer to types of accounts within the fund -- unearmarked and earmarked accounts.

The unearmarked funds are used for such things as entertainment of patients (stage shows, video tapes, movies, attendance at a sporting event), arts and crafts, altar flowers, hymnals, volunteer recognition, canteen books as prizes for contests, etc., and other such activities. The earmarked funds are used only to purchase those things identified by the donor. Purchases have included a wide range of things such as TVs, electric shavers, recreation pavilions, wheelchair adapted and buses, chapel decorations and furnishings, stained glass memorial windows, hymnals and comfort items (shaving cream, soap, toothpaste). When the funds are not used for purchase of designated items they must be returned to the original donor or applied to a newly designated project.

Expenditures for research, education, medical and other non-religious and non-recreation activities are limited to funds specifically earmarked by the donor for such purposes.

Question: 20. Funding for rehabilitation research has been reduced. What are the reasons for this reduction?

Answer: The Congress reduced the President's budget for Medical and Prosthetic Research by a total of $5 million and directed in Conference Report language that $3 million be added to the Rehabilitation Research Program and that $8 million be applied as a general reduction against research activities other than rehabilitation research.

The rehabilitation research budget estimate for FY 1988 was $17,534,000 and, as a result of Congressional action, the current estimate for FY 1988 is $20,777,000.

Although the President's Budget for Rehab R&D in FY'89 ($18,994,000) is a reduction to the FY 88 appropriation, it in fact represents an increase of $1,460,000 to the FY 88 request.

Question: 21. The VA proposes a decrease of $4.5 million in contract care. How will this impact on veterans in Alaska who rely on contract care for their health-care needs?

Answer: 21. The workload projected in the 1989 budget is the same as the 1988 level.

CONSTRUCTION BUDGET

Question:	1. The VA has requested $8 million for the settlement of contractors' claims in connection with the construction project at the Bronx VAMC. Please provide me with specific and detailed information on this issue including an analysis of why such a settlement is necessary.
Answer:	The construction of the Bronx Replacement Hospital, Research Addition and Site Development project (including demolition of the existing hospital) was split into nineteen (19) prime contracts. The prime contractors of Phases VIII, X, XI, 8BIV, 8BV, and the construction manager have submitted delay claims totalling $14,112,030. The contracts were completed two (2) years late and the bulk of the claims reflect extended overhead cost due to alleged Government caused delays. Audits and technical evaluations of the claims resulted in conflicting opinions as to their validity. General Counsel advised that the Government's position in litigation would be jeopardized without independent consultant support for unbiased expert analysis of facts, circumstances, and events. We hired a claims consultant and were professionally advised to settle claims. Our General Counsel, claims consultant, and contracting officer negotiated and settled the claims for approximately $4,150,000. The interest accrued until anticipated payment, plus the negotiated settlements and sufficient funds to settle the one remaining unresolved claim from the construction manager currently pending with the Department of Justice, amounts to the approximate total of $8,000,000 requested in the budget.
QUESTION:	2. The VA has also requested $2.6 million for sales and use tax to the State of Washington for a previous construction project. Will such payments be necessary in states other than Washington? If so, how much is expected to be owed to states for this purpose? If not, why does it not apply to other states?
ANSWER:	There are numerous states which have a sales tax which is paid by U. S. Government contractors. Each state, county, and city is different. The Veterans Administration incorporates such costs in its individual project estimates and requests funding accordingly. The contract specifications require that the contractor pay all state and local taxes as a part of their contract price. With this procedure, the taxes in effect for any particular time have already been paid on the projects in other states. The Veterans Administration followed this procedure on the State of Washington projects. Based on a 1977 United States District Court ruling, the sales tax was not assessable. This decision was overturned by the United States Supreme Court in 1983. The amount of $2.6 million only represents the taxes which could not be appropriately funded or paid during the six year litigation period. For other states, we have not received any claims for retroactive payment of taxes over and above what has already been paid through the contractors. However, the various tax statutes will continue to change. Our procedure to include the current tax cost in the individual project estimates for funding and payment through the contractor continues to be our most viable method of accommodating such changes.

Question: 3. The budget documents discuss the VA's intention to propose to raise the Minor Construction limit to $3 million. How many projects fall between $2 and $3 million? What would be the impact of this proposed change?

Answer: Although there are no projects between $2 and $3 million at this time, due to the current limitation, there are over 140 Minor Construction projects in various stages of planning and construction whose total estimated cost is over $1.5 million. In some instances, project scopes have had to be reduced to remain within the limitation. This situation will be alleviated by raising the Minor Construction category.

This change will not significantly impact the Major or Minor requests in the future. Most Major project costs are markedly greater than $3 million. Several future projects planned in the program were placed in the Minor program under the proposed limitation. However, the total project costs at this time are very close to the proposed $3 million limitation which may place some of these projects back into the Major program after they are further developed.

Question: 4. Even though both the Mountain Home and Perry Point facilities currently have or will have excess parking capacity, the VA is proposing to add additional surface spaces in connection with domiciliary and clinical improvements projects. What is the cost of this surface parking at each of these facilities? How far would staff have to walk if no new surface parking were established?

Answer: The cost of surface parking for the Mountain Home domiciliary building is estimated at $60,000 to provide 47 new spaces to replace a portion of the 212 spaces lost as a result of construction. The surface parking is primarily for patients as well as staff to provide adequate access to the new building. If new parking is not provided, available parking would be approximately 600 feet from the entrance.

The cost of the surface parking for the Perry Point Clinical Addition to Building 23H is estimated at $72,270 to provide 42 spaces to replace a portion of the 100 spaces lost as a result of construction. The surface parking is primarily for patients as well as staff to provide adequate access to outpatient and other clinical services. If the new parking is not provided, available parking would be approximately 400 feet from the entrance.

Question: 5. With regard to each proposed project contained in the budget documents, a lot of alternatives were provided. Is cost a consideration when choosing the most appropriate alternative? If so, why are cost estimates not provided in the budget documents?

Answer: Cost is one of many factors used by the Agency to choose an alternative for a construction project. Others include phasing, level of disruption on the facility, space and functional relationships and construction duration. The cost provided in the budget submission is based on the preliminary design of the alternative selected. Only the selected alternative is further developed through preliminary design and the cost estimate further refined. The VA does not include cost estimates for each alternative because of the varying levels of refinement in them.

Question: 6. With regard to the proposed nursing home in Tampa, will the VA use their recently developed prototype design? If not, what is the design cost for the project?

Answer: The VA will not use the recently developed prototype design. The 120 Bed NHCU Addition is a vertical expansion; two floors are being added to the existing nursing home which was designed in 1981, prior to the development of the new prototype.

The design cost is estimated to be $431,000 based on the preliminary design.

Question: 7. What is the "construction contingency"? I have noted that the percentage associated with this figure appears to range from about 5 percent to 10 percent. How does VA determine what percentage figure is associated with each project?

Answer: Construction contingencies are specific money allowances based on a percentage of construction costs to anticipate necessary changes during construction where increases are likely to occur. These necessary changes could result from unknown conditions, program changes, changes due to technical and administrative decisions, design errors or omissions, VAMC requested changes, Value Engineering proposed changes, etc.

The contingency allowances are as follows:

New Construction:	
Magnitude & conceptual estimates	: 7.5%
Preliminary estimates	: 5.0%
Working Drawings	: 5.0%
Alterations:	
Magnitude & conceptual estimates	: 10%
Preliminary estimates	: 7.5%
Working Drawings	: 7.5%
Combined New & Alterations	:Proportioned mix between 5% & 7.5%

Question: 8. In connection with the cost of construction projects, please explain the following terms and how those costs are estimated:

- technical services
- impact costs
- utilities agreement
- inflation allowance
- design contingency

Answer: - Technical Services include costs associated with Architect-Engineer fees, consultants fees, subsurface investigations, reimbursable costs to A/E's such as printing of bid documents, site surveys, etc.

The allowances for technical services are based on the appropriate percentage of the total estimated base construction cost plus the construction contingency as shown in the prospectuses.

New Construction & Alterations:

Magnitude & conceptual estimates : 10%
Preliminary estimates : 7.5%

The above percentages are used to cover technical services during the working drawing design phase and for A/E assistance during construction for such items as providing independent estimates on change orders, performing construction inspections, etc. If the working drawings are prepared in-house no percentage will be added.

- Impact cost items are those temporary conditions which occur at a Medical Center and are a direct result of a major or minor construction project. An impact item, e.g., renovation of temporary working space or leasing of on or off-site working space is accomplished either prior to or during construction to allow the hospital's activities to continue during the construction project.

A detailed listing and a detailed cost estimate is provided by the Medical Center during the final stages of the development of preliminary plans.

The approved impact costs are based on the completed preliminary plans and phasing plan that will be included as part of the construction budget for the project. We now have an Impact Review Board in-place, which will resolve disputes and expedite the review process.

- Utility agreements are necessary to cover on-site and off-site additions/renovations required by municipal governments, utility companies, etc.

These agreements could cover such items as electrical connections; gas, storm and sanitary sewer hook-ups, traffic signals, off-site roads, etc.

Cost estimates or proposals are normally obtained from the municipal services involved and are included in the total estimated project cost.

- **Inflation allowances** are added to the total base construction cost to allow for future inflation between the date of preparation of the cost estimate and a scheduled construction contract award date.

We use mandated OMB inflation rates for Federal Construction non-residential structures.

- **Design contingencies** are based on a percentage of the construction costs to be added to conceptual or schematic estimates only. This contingency, also used in the private sector, is added at early stages of design development only to cover unknown conditions or scope changes during the design process. As the design progresses and becomes more detailed, design contingencies drop out. Design contingencies are only used on split-funded projects in the Replacement and Modernization category.

The design contingencies will vary with the type of project and the design definition from which the estimates were prepared. The estimators rely on their judgment in allowing for contingencies. We have used design contingencies between 2% and 10% of the total estimated base construction cost plus construction contingencies and technical services as shown in the prospectuses.

Unknown conditions could range from differing subsurface conditions such as sink holes, high water table, rock, etc. to interior construction such as the percentage of ceramic tile, vinyl flooring, carpeting and ceiling finishes.

Scope changes could cover fluctuations in gross areas, number of beds, additions or deletions to the space program, etc. Design changes can occur in assumed major systems such as exterior closure, superstructure, etc.

WRITTEN QUESTIONS FROM SENATOR SIMPSON TO THE VETERANS ADMINISTRATION AND THE RESPONSES

LOAN GUARANTY

QUESTION 1: Please provide the rationale for reduction in staffing and funding for Loan Guaranty.

ANSWER 1: The reduction in the staffing request from 2,100 FTEE (FY 1988) to 2,025 for FY 1989 represents a change of less than 4%. This minor reduction is based on expectations of a decline in origination activity for new GI loans, an expected improvement in defaults and foreclosures, and a decline in property inventory.

QUESTION 2: How will this reduction affect the Denver Regional Office?

ANSWER 2: We do not expect to impose an across the board staffing reduction, but will allocate staffing to regional offices according to local workloads.

READJUSTMENT COUNSELING

Question: 1. There is a proposed reduction in the veteran's readjustment counseling program (Vet Centers). I have previously shared my deep concern with the VA that the Vet Center program in Wyoming has been inadequately staffed. What effect will this reduction have on the Wyoming program?

Answer: The proposed reduction in Readjustment Counseling Service would result in reducing staff at some Vet centers, relocating some vet centers from the community to VA medical facilities, and decreases in the contracts program. The geographic and demographic characteristics of the State of Wyoming will be given full consideration regarding local implementation of proposed budget reductions.

Question: 2. What is the current staffing level of the Vet Center program in Wyoming?

Answer: The Cheyenne Wyoming Vet Center has a total staff assignment of 6 FTEE. Three FTEE are stationed at the Cheyenne Vet Center, 2 FTEE are assigned at the Casper Vet Center Satellite, and 1 FTEE is outstationed at Ft. Collins, Colorado. Currently there is one vacancy for a counselor at Cheyenne which Readjustment Counseling Service (RCS) officials anticipate filling within 30 days. The outstationed counselor at Ft. Collins provides services to veterans from Southwest Wyoming and Northern Colorado.

Question: 3. How many of those staff members actually provide counseling?

Answer: Five of the six assigned staff actually provide counseling to veterans. One of the staff assigned at Cheyenne is an office manager providing administrative services.

Question: 4. How many veterans and family members are provided counseling by Wyoming Vet Centers each week? How many total hours of counseling are provided each week?

Answer: On a weekly basis approximately 64 veterans and 36 family members are provided readjustment counseling service. Also, on a weekly basis the equivalent of 96 45 minute staff/client sessions are provided by the current 4 counseling staff members. This number of client sessions is achieved through extensive use of group counseling.

Question: 5. Are there contractors in Wyoming providing readjustment counseling? If so, who are the contractors? How many veterans and family members are provided counseling by contract providers each week? How many total hours of counseling are provided each week by contractors?

Answer: Currently there are no contractors providing readjustment counseling in Wyoming. However, the development of a contracts program in the area is a high priority and is currently underway in conjunction with Supply Service at the Cheyenne VA medical center. Solicitation for bids has been undertaken and 12 potential contract providers have been identified.

Question: 6. There is evidence of a demand for expanded readjustment counseling services in Wyoming. Are there plans to expand the current services offered, either through opening new Vet Centers or through contracting with other providers?

Answer: Increased workload demand for readjustment counseling in Wyoming will be addressed through development of a Readjustment Counseling Service contracts program.

WRITTEN QUESTIONS FROM SENATOR SPECTER TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question: 1. In the FY '88 legislation, the Congress directed that the VA procure two additional commercial systems for tertiary hospitals. How and when do you intend to accomplish this?

Answer: DM&S has already begun the process for preparing a functionally oriented solicitation document. A Program Management Office (PMO), headed by the Director, Technical Advisory Staff (10B/IRMB), has been established within the Medical Information Resources Management Office for this purpose. Two management consulting firms are expected to assist in the development of the RFP to assure that all functionality has been included to establish a comprehensive hospital information system to meet the long term needs of the VA medical centers and that specifications are included for an equitable comparison between the commercial systems (IHS) and the VA developed systems (DHCP).

It is expected that it will take approximately 4 1/2 months to develop the functional specifications. Planned release of the RFP is for the end of this fiscal year. Another six months are allowed for preparation of the proposals by the vendors and evaluation of the proposals by the VA. The contract is expected to be awarded in March 1989, with system installations to begin within 30-45 days of award.

Question: 2. What technological advances or technical alternatives will the VA evaluate with these procurements?

Answer: The VA is interested in developing innovative information systems technology that will meet the needs of medical centers through the next decade. DM&S will be preparing a functionally oriented solicitation that combines the best features of the current IHS applications with those of DHCP, and also provides for examining and installing information system innovations that are not known at this time. We have already established a program of software exchanges and migration of technology between commercial systems and the VA's Decentralized Hospital Computer Program (DHCP). Examples include DHCP's purchase of two commercial nurse scheduling packages; the installation of PDP 11/84 computers at the three IHS sites in order for the latter to operate HINQ software.

Under the new procurement, VA will also be examining other technological innovations for possible incorporation into the hospital information system structure. Examples include advanced graphics and imaging storage and retrieval systems, bar code systems, a variety of patient identification systems, portable data entry terminals and point of care systems, a number of data base management application tools, telecommunication and networking enhancements, and artificial intelligence systems.

The technology utilized in the expanded IHS test will allow for maximum flexibility by ensuring that innovations and R&D efforts in the private and public sector can be adapted throughout the evolution of the system. Lessons learned from the DHCP and IHS implementations indicated that for a system to be effective over the long-term it must satisfy certain technical requirements. At a minimum this would include:

- The underlying operating and programming system should be hardware-independent and the applications software should be useable on a wide variety of hardware from personal computers to mainframe computers.

- The system should be flexible and adaptable, written in a high level programming language, and contain source code that will facilitate software adaptations.

- The system should include on-line user documentation and management functions along with extensive user help functions.

The above requirements represent the minimal standards for the functional specifications contained in the IHS RFP under development. Eventually, all interested vendors will have to demonstrate an ability to furnish these capabilities.

Question: 3. If a new Request for Proposal (RFP) is to be issued, how will the technical specifications differ from the existing Integrated Hospital Systems (IHS) specifications?

Answer: The current specifications for IHS were written at a time when the VA was first automating the hospitals and were limited to a few specific areas of the hospital, basically Core (Scheduling, Admission/Discharge/Transfer, Pharmacy, and Laboratory) plus some optional packages. The VA now has three years experience operating both IHS and DHCP systems and is more knowledgeable about what is needed to effectively automate a hospital.

The new IHS is being designed to be a comprehensive hospital information system that will meet the long term needs of the VA Medical Centers. In addition to combining the best features of the current IHS and DHCP systems, the RFP will allow for examining and installing information system innovations that are not known at this time. The first IHS contract was not written to incorporate upgrades. The RFP will also include specifications for insuring an equitable comparability study between IHS and DHCP.

A contractor will assist MIRMO in developing the specifications. It is expected that the Special Interest User Groups for Medical Administration, Pharmacy, Laboratory, Dietetics, Radiology, Supply, Fiscal, Surgery, Nursing, Mental Health, Engineering, Medicine, Quality Assurance, the Decentralized Medical Management System and the Clinical Record will all have input into the specifications. In addition, there will be a survey of the current status of the commercial sector, and the current IHS sites will provide their input as well. Finally, DoD's recently awarded Comprehensive Health Care System (CHCS) functional requirements will be evaluated to determine their use in the RFP.

Question: 4. How do you plan to finance the acquisition of two new systems?

Answer: In accordance with Congressional directives, the VA is planning to install two additional IHS systems at tertiary care centers. The Agency has developed FY 89 cost estimates for procuring two new IHS systems as well as for re-competing the three existing IHS systems. With regard to re-competition, a new contract may be necessary to upgrade the existing IHS sites in order to make them comparable to the two new IHS systems. We have asked the Office of General Counsel for a ruling on the appropriateness of re-competing the three vendor contracts and a decision is expected shortly.

We estimate that the two new IHS systems (which are equal in size and complexity to Philadelphia VAMC), could be acquired and operated for a total of $5.9 million. Currently, the Agency's FY 89 budget submission contains a provision for $8.5 million in recurring funds to support the three IHS systems in place. Insofar as this submission occurred prior to the Congressional directive to install two new systems, there was no requirement for additional IHS funds in the budget. Therefore, we will need to reevaluate other requirements across the system to determine the level of resources that can be made available.